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Banking Moves Westward

—[THE JOURNAL COVER ILLUSTRATION; FROM A PAINTING BY WALTER DE MARIS]—

OUT of the lack of roads, settlements, means of communication sprang the dangers to the travelers of the pioneering days. Conditions then seemed to be ideal for banditry. Great stretches of the country were in fact no man's land and after a hold-up, pursuit and capture often were negligible considerations.

Now out of our abundance of good roads, superior transportation and the very density of our population spring still greater dangers from banditry. Where once the wilderness was the great refuge of the outlaw, now he seeks, and too often finds, a safe haven where population is densest.

The event on which the painting for this month's cover illustration was based, occurred in the period of the Colorado Gold Rush, entertainingly told by Henry Swan, Vice-president of the U. S. National Bank of Denver, in an article long ago in the *Mountain States Banker*. Gold had been discovered in Pike's Peak Region in 1858 and by the close of the summer of that year, two thousand persons had made their way into the region.

With 500 miles of prairie on the East over which hostile Indians ranged, and with an even more hazardous wilderness to the West, the

difficulties of obtaining the means of establishing a business of any kind were, in the days of the Rush and for long after, many and not easily overcome.

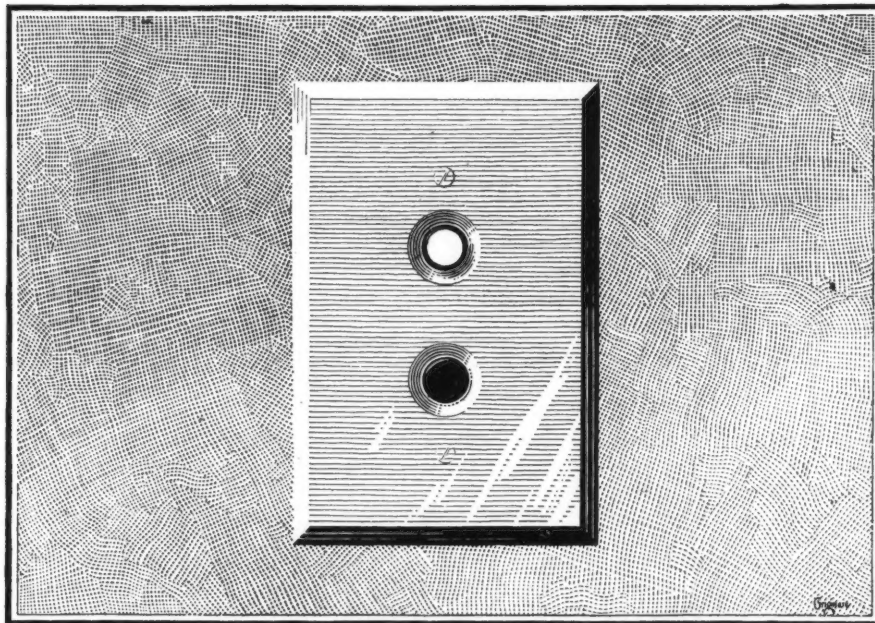
"The dangers of travel, the long distance to the East and the unusual requirements of the new territory frequently made strange precautions necessary in banking affairs," says Mr. Swan's narrative. "When the first bank was started in Gunnison

County, it being by the way, the first bank west of the Continental Divide, in Colorado, the problem of transporting a safe, and sufficient cash to open the bank was a serious one. The problem was finally solved by hiring out Sam Gill, one of the organizers of the bank, as cook and general roustabout for a bunch of freighters. The bank's capital, amounting to \$25,000 was then locked in the safe and arrangements made to trans-

port it by wagon from Saguache in Colorado. The trip was safely made, Mr. Gill in addition to his duties as cook, taking pains to see that nothing happened to the safe.

"While Gill was keeping a sharp eye on his companions to assure the safety of the bank's capital which was located in the safe, they in turn were convinced that he was a suspicious character and were keeping a close eye on him."





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AMERICAN BANKERS ASSOCIATION JOURNAL

Big Business and the Opportunities For the Little Man

By THOMAS R. PRESTON

President, American Bankers Association; President, Hamilton National Bank, Chattanooga, Tenn.

A Young Man Today Has Ten Times as Many Opportunities As a Young Man Had a Generation Ago. Formerly Men Sought Jobs, Now Jobs Seek Men. Most Difficult Task of Every Executive is to Find Men. Brains and Character Command Premium.

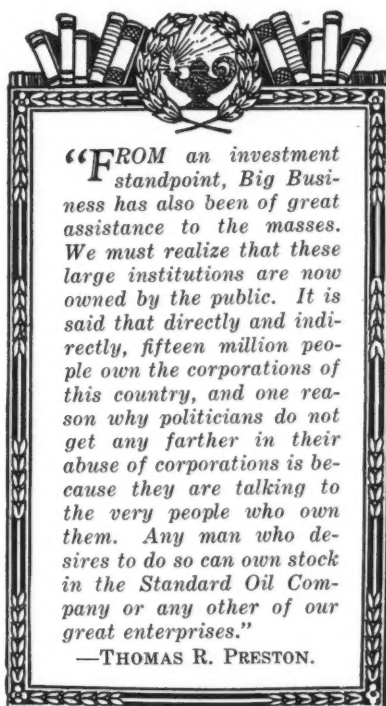
THE Big Jobs of tomorrow will be filled by the Little Men of today!

We are just coming to the age of big business, and one of the most interesting phases of our business and social life will be big business and the opportunities for the little man. A young man now has ten times as many opportunities as a young man had a generation ago. Formerly men sought jobs, now jobs seek men, and the most difficult task of every executive is to find men of character and ability, trained to a high state of efficiency.

We are living in an age the like of which no other generation ever experienced. This is because of the world's scientific discoveries. The inventive genius of man has never been busier than during the past twenty years.

The Groundless Fears of 30 Years Ago

THIRTY years ago people thought that because of mergers and combinations we had reached the age of Big Business. The regulation and attempted suppression of these great business combinations provoked many exciting political campaigns. Mergers and combinations then seem small compared with those of today. Some contended then as they do now that in the age of great combinations and consolidations an individual would become but an atom of an aggregation. Has not the reverse proven true?



"FROM an investment standpoint, Big Business has also been of great assistance to the masses. We must realize that these large institutions are now owned by the public. It is said that directly and indirectly, fifteen million people own the corporations of this country, and one reason why politicians do not get any farther in their abuse of corporations is because they are talking to the very people who own them. Any man who desires to do so can own stock in the Standard Oil Company or any other of our great enterprises."

—THOMAS R. PRESTON.

It is a fact that 90 per cent of all business is now done in corporate form, and corporations are larger now than

ever before known. Corporations are the one means by which a multitude of individuals can mass all or part of their resources in an enterprise for the development of the country and for rendering service to the people. Large units of capital result in benefit to the public. We can have no real labor in this country without capital, and the more capital the greater opportunities for labor.

In banking it has been demonstrated over and over again that it is far better for the public that we have fewer and larger banks, which are capable of meeting adequately every demand, rather than a multitude of small ones struggling for existence. This is also true in other lines. One of the most striking examples of growth and development of big business and the service it renders to the public is our electric power companies. There are more than twenty-one million homes in the United States, and sixteen million of them now have electric lights, and most of these have been installed within the last fifteen years. Our electric lights today cost one-fourteenth per candle-power what they cost twenty-five years ago. Could this have been possible except by reason of large corporations? It is only because of large corporations and mass production that the automobile, radio, the phonograph, and many other things are made possible in so many American homes.

(Continued on page 177)

Some Banks Give Away Interest for 260 Days

By W. R. MOREHOUSE

Vice President, Security Trust & Savings Bank, Los Angeles

Still Others "In the Tight-Wad Class" Give Away Interest for Only 24 Days. An Analysis of the Practice of Dating Interest Back Shows Surprising Results. The Practice Compared with Merchandising Where the "Gift" Practice No Longer Prevails.

MANY banks, and especially those that compute interest on a quarterly basis, are indulging in a practice of allowing interest bonus on deposits made on or before a certain day of the month. By this I mean deposits made on or before certain dates of the month earn interest from the first of the month.

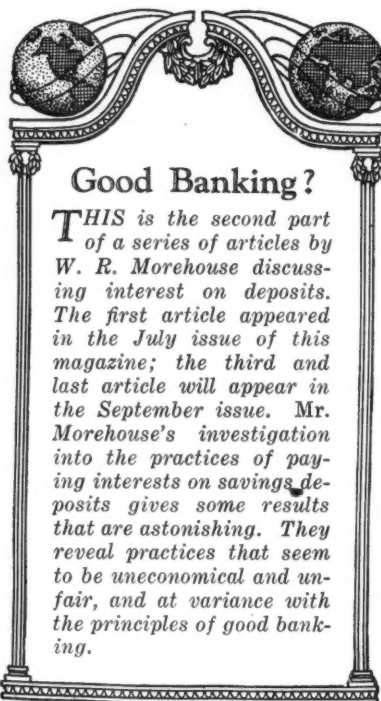
On one hand, banks are cutting the corners on free service and other expenses, and many are on the threshold of reducing interest to savings depositors, and on the other hand they are paying liberal interest bonuses. Apparently some banks are not consistent.

Strange as it may seem, many of the banks that are the hardest pressed because of the high cost of savings business are guilty of giving away the largest interest bonuses. If these particular banks were told that they have as many as 168 days a year in which deposits can be made and the interest dated back, they would no doubt be dumbfounded, but such is the fact. They allow interest on deposits made on or before the 15th of each month from the 1st of the month, which means that they have twelve times fourteen days when interest is given away, or 168 days a year—more than half of the business days in the year! Another group of banks allow interest from the 1st of the month on deposits made on or before the 15th of January and July and on or before the 10th of the other ten months. According to my calculations, this group has provided for 118 days when interest is dated back.

Another group gives away 108 days interest each year on the proposition that deposits made on or before the 10th of any month will earn interest from the 1st of the month. Another group, on the basis of 15-5-5-5-5-5 and 15-5-5-5-5-5, provides for 68 days of free interest each year. And still another group, that might be called "tight," have set aside 24 days a year when interest will be dated back—and this is 24 days too much—on the basis of 3-3-3-3-3-3 and 3-3-3-3-3-3.

Apparently the most popular schedule of days of free interest is as follows:

"Deposits made on or before the 10th of January, April, July and October and on or



before the 5th of the other eight months earn interest from the 1st of the month."

Let us analyze it and see what are its possibilities of expansion.

In the first place, it provides for 68 days each year in which deposits can be made and the interest dated back. As all savings deposits made on or before the 10th of January, April, July and October earn interest from the 1st of these months, then all deposits made on the 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, 9th and 10th of these months draw interest from the 1st, and as all deposits made on the 2nd, 3rd, 4th and 5th of the other eight months draw interest from the 1st, if only one deposit was made a day it would mean giving away 260 days of interest. Multiply this by the number of deposits made on these bonus days and the results are alarming.

Just why our banks are throwing away so much money on interest not earned, and which depositors have no

right to expect and which they do not expect, is a matter for which no one with whom I have corresponded seems able to give a legitimate reason.

I suspect that some banks have been led into making unwarranted contributions of interest more as a compromise than because it is earned. Other banks reason that it takes depositors a few days after the 1st of the month to get their funds into the bank, and by dating the interest back it helps depositors to get started as of the 1st. As a matter of fact, isn't it true that these reasons are as flimsy as thin air, and that the real reason is one of competition—one bank outbidding the other?

If banks are in earnest as to reducing interest costs, I suggest that they discontinue the practice of paying except from the date of each deposit.

The giving of bonuses by banks is not good business. For example, "A" deposits \$1,000 on the 15th of January and draws it out on April 1. Under many quarterly systems he would be paid three full months' interest. The facts are, his money was on deposit but two and a half months. At a 4 per cent rate, the bank that handled his account actually overpaid him \$1.67, or 16 per cent more money than he is entitled to, or at the rate of 4.8 per cent per year.

What Bank Should Have Done

WHAT this bank should have done, inasmuch as the depositor got his deposit "under the wire" within the specified time, was to pay him for two and a half months at 4 per cent, or \$8.33. Granting that the shortest term for which a bank pays interest is three months, how does the present method lengthen the term just because a bank is so unbusinesslike as to date a deposit made on the 15th back to the 1st of the month? It does not actually lengthen the term fifteen days by any method of computation that I know anything about. This being the case, what objection can there be to paying interest from date of deposit, although the period may be shortened by a system which provides for days of grace.

As a matter of fact, the present method of throwing unearned interest

into the laps of depositors is manifestly unfair to a bank's stockholders. A modern, well-managed dry goods store does not throw in the linings and other trimmings whenever a dress pattern is sold. When you buy a dress shirt, your haberdasher does not throw in a set of shirt buttons, does he? Quite properly, you pay for the buttons.

"Gifts with every purchase" have been discontinued by every modern merchant. In one state, at least, it is against the law to pay bonuses, and, accordingly, none are paid by banks. Let's make it unanimous by having all banks in the United States discontinue this unbusinesslike practice.

Banks have not quite come to the point of discounting interest to borrowers, but this is a point well worth guarding, for the first thing our bankers will know, some bank will be dating the interest on loans made after the 15th as of the 1st of the following month. This may savor of sarcasm, but it is not. What could have appeared more ridiculous twenty years ago than a statement that in 1928 banks would be throwing away interest that was not earned, as though it was as free as water.

One of the biggest incentives to opening a savings account is in order to place idle funds on interest. Probably no one feature of a savings account has been advertised more than that of interest from date, unless it be the safety of our banks.

As some banks are not paying interest from date except on deposits made within a specified time, the question naturally arises as to whether or not it is a mistake to limit an incentive which for years has contributed so much toward the success of savings in America.

Will not the fact that the privilege of interest from date has been restricted cause many savers to shop around and see if they can find a building and loan association or a mortgage or investment company that will pay them interest without this delay? Will not the fact that bonds and mortgages bear interest from date of purchase cause savers to lose interest in a savings account in a bank? A few bankers will answer "no." But let me suggest that all such check up and ascertain just what progress their savings are making. I discussed this same point with a banker during the Spring Meeting at Augusta,

and he maintained it would not make any difference. Later I checked up on the growth of savings in his bank and found that his bank would have lost in savings for the past five years if it were not for the interest which his bank had credited to its savings accounts.

What effect is a situation like this going to have on the growth of savings? If "A" calls to make a deposit April 15 and finds that it will not begin to earn interest until July 1, what inducement is there for leaving the money? As there is nothing to be gained, is it not the most natural thing for him to ask himself: Why leave it? Why not look around and see if there is not some investment that will pay interest from

The unfortunate thing about not paying from date of deposit is that the saver is unable to help himself in many instances. He cannot get possession of his funds at any time he chooses, but must take them as they are paid to him. He cannot always get possession of the money he deposits in a savings account within the interest dates fixed by the bank. Thus any arbitrary dead line works a hardship on millions of savings depositors.

Unquestionably the most effective clincher—the one thing more than any other that has caused people to open savings accounts—is the fact that they can get interest from date of deposit.

It is one of the most effective weapons in the hands of our bankers for getting people to hustle their savings into the bank.

One of the best informed savings bankers in the United States recently made this comment on whether or not it was for the best interest of savings banks to pay interest from date of deposit.

He says: "Not only is the slogan 'interest from date' one of the strongest pulling powers savings banks have for exciting savers to immediate action in opening accounts and in making future deposits promptly, but it is the big incentive in encouraging regularity of making deposits at

frequent intervals, especially by wage earners who receive their income weekly. If interest is not paid from date, but begins with a future date, two weeks to two months or more in the future, then millions of regular weekly savers would have to forego interest on their deposits. If the inducement for making regular deposits every pay day is absent, then many savers will not feel the urge to make deposits promptly, and this may mean not making deposits at all."

Suppose a Bank Advertised Its Generosity This Way?

date? Is he going to be satisfied with the statement that it takes the bank two and a half months to lend money when he is bombarded on all sides by advertisements and solicitations laying stress on interest from date of deposit? Will he be satisfied with 3 per cent or 4 per cent beginning two and a half months later when he can get 5 per cent or 6 per cent from date from financial institutions claiming state supervision and regulation?

The Investment Salesman

A COMPARATIVELY few savers, inexperienced in financial matters, may leave their money on these terms, but it is certain that when they become more experienced in financial matters, and when they are interviewed by investment salesmen, they are going to do a lot of shopping in order to get interest from date.

What Justification for Time Certificates

ANOTHER banker of equal prominence, in discussing this subject, asks this question: "What is to become of the various savings clubs, a majority of which provide interest from date? Most assuredly, interest cannot be paid from date on these small deposits and

(Continued on page 156)



Who Can Solve These Savings Bank Problems?

By CHARLES A. MILLER
President, The Savings Bank of Utica, N. Y.

Mark Values and Dollar Values Compared. Even if We Knew Great Inflation Impended, Could We Prepare for It? Legal Investment Statute Has Served a Useful Purpose but Consider the Other Side. What Is Bank's Duty to Neighboring Institutions?

THE executives of our bank had met to discuss our problems. Since it is no longer a "one man bank," these conferences are frequent, and only the treasurer, the vice-president, and I take part in them. The treasurer, short, firm, practical, a graduate of our institution who entered as a messenger boy in '99, was leaning back, his chair tilted against the mantel, the remaining two inches of his after-breakfast cigar between his teeth. He had just expressed doubts as to the wisdom of the bank retaining membership in the International Thrift Institute.

"What have we to do with foreign affairs?" he asked.

The vice-president, a former educator, with the high forehead of a thinker, stood up to answer. He is the idealist of our organization, and now, with flashing eye, he was ready to do battle for international fellowship and good will.

But at that moment there was an interruption. The door opened and the "glad-hand man," as we call the diplomatist who sits near the entrance to the bank and offers every sort of advice, help and welcome to our visitors, came in.

"Excuse me," he said, "but there's an old German here, named Schwartz, who wants to see the president. I think you ought to see him a minute."

The Answer

I NODDED, and he stepped aside to admit a typically Teutonic old man who carried a flat crowned brown derby and a letter, fumbling them nervously from one hand to the other.

"Dis iss ein Sparr-Bank—a safings, nicht war?"

"Yes, this is a savings bank."

"So! Den you vill to me dis ding ogsblain."

I nodded encouragement.

"All mein life haff I hard worked. Unt all mein life haff I vot I safed can in te—te, how you say, te safings bank, te Sparr-Bank at N—g debosited. Und after te war I have in America to my bruder come, aber mein geld—mein money haff I in te safings bank left. I say mit meinsel, 'te ten dousant marks dat I haff, dey will more gut be some day. Dey vas vort more as two dousant dollars ven I vork und schvet for dem.



What Answers?

IN this, the third of a series of articles on savings banking by Charles A. Miller, the author presents a comparison between the mark and the dollar both of which fell under the influence of a great economic change. He points out that if even it were known today that a great inflation were pending there would be difficulty in taking steps to escape its effects. In the September issue Mr. Miller will relate some surprising experiences which he tells under the caption, "All in the Day's Work."

I schust leave dem until dey is vort two dousant dollars again.' Marks vas den about four cents vort, but I dink 'te Sparr-Bank iss immer—always gut. It vill fail neffer, because it iss Sparr-Bank. Py un py I gets mein gelt.' So? Nein! I gets nichts. I haff last month to the Sparr-Bank written dat I takes my money now. I would no more wait—a little loss perhaps—but what I had I would take now. Und heute—today—I dis letter received haff."

Here he held out to me the letter, in a shaking hand. I can read a little German, and, translated, this is what I read:

"N—g, 18 January, 1925.
Herman Schwartz,
1102 Columbia Street,
c/o Frederick Schwartz,
N. Y.

Esteemed Sir:

In response to your letter of the 10th of December, 1924, we beg to advise you that we have balanced your account No. S-11352 for Ten Thousand Marks (M. 10,000) because

the postage on this letter of reply has cost us more than the value of said balance.

And I beg to remain with high esteem.

Otto Richter,
Manager, Sparr-Bank of N—g"

"You also," said old Schwartz when he saw that I had finished reading, "you also are manager of a safings, not so? You vill diss eggsplain. I haff safed and gut money in bank put. Now I vant mein money—und te bank pay nozzing. Iss it failed den? No? How iss?"

I read the letter aloud to my associates, and I tried to explain to Schwartz something of inflation and post-war finance. But it was no good. His simple mind couldn't get beyond the fact that he had trusted the savings of a lifetime to the Sparr-Bank at N—g, and now he could get nothing. He left shaking his fist and declaring:

"Dat Sparr-Bank iss one ———, ——— teef!"

None Give Thought to Its Solution

"THAT, gentlemen," I said, as the door closed behind him, "not only shows one of our connections with foreign affairs and world finance, but indicates the toughest problem before the savings banks today. And the sad thing is that no savings banker, and no legislator is giving constructive thought to its solution."

"Oh well," said the treasurer, "we're never going to have any such inflation here."

"Probably," I responded, "the manager of the N—g Savings Bank thought so too, before the war; but history should have warned him. Our own history ought to warn you. Look at the little table in the newspaper under the title "What the dollar is worth." You'll see that our crime is only less than his. He received marks worth twenty-four cents each and paid back nothing. We received dollars, worth a hundred cents and are paying them back worth sixty-two."

"But I can't see what we can do about it," interjected the vice-president. "Even if we knew that a great inflation impended, we couldn't prepare for it, any more than the N—g bank could."

"Why not?" I asked.

"Because what we have in vault is money—not currency altogether—but bonds, which represent money receivable at a future date, mortgages which also represent promises to pay money secured by real property; even if we loaned our funds like a discount bank, our commercial paper would only stand for so much money. And, in inflation, money loses its value. How could we help it?"

"That is our problem, I think," I answered. "It isn't insoluble, probably. The difficulty is that nobody is trying to solve it. I grow impatient with the easy optimism which denies the possibility of inflation."

"Perhaps you have a solution up your sleeve," and our treasurer favored me with a

asked. And that ended the debate, for the time.

Not Soluble

SOME of our problems are not soluble at all; and this may be due to the irreconcilable nature of opposites. For example, one wants to give one's customers and one's community the best service that a savings bank can give, and, at the same time, one would like to show that no similar institution operates at so low a cost. No savings banker can achieve both of these laudable am-

bank can easily pay 4 or 4½ per cent to depositors, and still set aside handsome additions to surplus, deposits fall off and increased withdrawals threaten to force liquidation of securities at low prices. When securities are high and return falls to the vanishing point, depositors rush to the savings bank and flood us with money which the law compels us to invest at prices which will show an eventual loss.

I remember hearing a



"How iss?"
asked old
Schwartz

sarcastic smile.

"No," I answered, "Yet the theoretical solution is obvious.

When money depreciates, property appreciates, *pari passu*. The way out is to find a practical method of exchanging our money and promises of money for property. Then the value of our assets, measured in dollars, would go up as the dollar went down, and we could compensate depositors for the lost purchasing power of their balances, by increased dividends."

"But that would mean buying stock," exclaimed the treasurer, much horrified.

"Yes," I admitted, "But only as an emergency measure. Just as many unrestricted financial institutions have bought stock, to the great profit of their stockholders, we might invest in stock to the advantage of our depositors—not generally, but as an emergency measure."

"Wouldn't that be a sort of speculation?" The vice-president objected.

"Would you rather see your depositors treated like poor Herr Schwartz?" I

asked. More service means higher cost of operation. One would like to pay low wages to one's officers and clerks, in the interest of economy, and, at the same time, we feel assured that one's subordinates are the most interested, efficient and courteous employees with whom the public comes in contact. It can't be done. One would willingly pay out one's entire net earnings in dividends to depositors, and, simultaneously, accumulate a surplus fund larger than any other bank can boast, if one only could.

The natural perversity of economic facts creates difficulties. When general interest rates are high, and a savings

volunteer "friend of the people" tell a legislative committee, in 1914, or thereabouts, that the savings bank officials who had bought 3½ per cent bonds, at the beginning of the century, at a premium, "ought to be indicted." I wondered just how he would have invested deposits if he had been charged with that responsibility in the days when New York City sold bonds on a two-eighty basis. It's a problem, so far unsolved. The obvious solution, to buy only short term bonds when interest rates are low, demands a knowledge that they will not go even lower, and the narrow restrictions of the savings bank investment laws make it of difficult application.

This is not the only problem which is tied up with the statutes limiting our investments. The plain legislative intent has been to enact a "fool-proof law," to lay down such limitations and restrictions that a savings bank could safely buy the permitted amount of any "legal" security without danger of subjecting its depositors to loss. The percentage of real estate mortgage loans, of railway mortgage bonds and of cash and bankers' acceptances is carefully limited. The size and location of the municipality whose bonds we may buy

(Continued on page 155)

Diversification Possibilities in Bonds

By HAROLD G. PARKER

Manager Investment Department, Standard Statistics Co., New York

Whether for Secondary Reserve Purposes or General Investment It Is Suggested that Diversification May Be Made as Follows: Railroad Issues 40 Percent, Public Utilities 35, Industrials 15, Foreign Dollar Bonds 10 Percent. Data Give Basis for Study.

IN the purchase of bonds, whether for secondary reserve purposes or for general investment, the matter of proper diversification is highly important. While it may not be feasible to lay down any broad general principle, we believe that if investments are divided as far as practicable, 40 per cent in railroad issues, 35 per cent in public utilities, 15 per cent in industrials, and 10 per cent in foreign dollar bonds, satisfactory diversification will have been attained.

Complaint has been made that a great deal of difficulty is being encountered in obtaining proper diversification along these suggested lines. This has led us to make an intensive study of the bond situation as a whole from this standpoint. We believe the results of this study will be of general interest and of considerable assistance to those who find it necessary to determine upon and maintain proper diversification of bank and investors' bond lists.

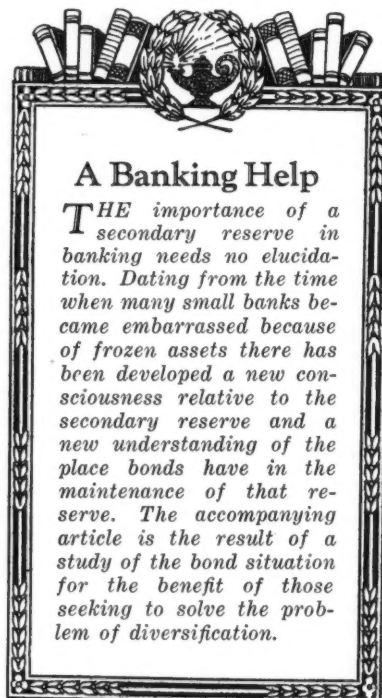
Various attempts have also been made to formulate general statements as to the relative investment merit of different types of bonds. We have not tried in the following tables and text to reach any such conclusions. We do feel, however, that the data presented furnish a sound basis for a study of the relative merits of two or more different types of issues. The bank official, investor or statistician who finds it necessary or interesting to form his own general opinions will find here the necessary data.

In Which There Is an Active Market

IN the compilation there are included only issues outstanding in amounts of \$1,000,000 or more, in which there is a fairly active market, so that they may be readily bought and sold. We find that these bonds are outstanding to a total of more than \$36,000,000,000, divided as follows:

	Per Cent
Railroads	33.8
Public utilities	27.8
Industrials	18.7
Foreign dollar issues	19.7

We present here in tabular form these totals in detail, subdivided among the four classifications:



A Banking Help

THE importance of a secondary reserve in banking needs no elucidation. Dating from the time when many small banks became embarrassed because of frozen assets there has been developed a new consciousness relative to the secondary reserve and a new understanding of the place bonds have in the maintenance of that reserve. The accompanying article is the result of a study of the bond situation for the benefit of those seeking to solve the problem of diversification.

The table shows that of these four classifications the largest percentage of bonds in the investment class is to be found in the railroad division. Of the total of railroad bonds, 87 per cent are rated A or better, as compared with 63 per cent for public utilities, 55 per cent for industrials, and 63 per cent for foreign dollar issues.

To carry this thought further, nearly 47 per cent of the railroad bonds are rated A1+. Strange as it may seem, next in order are the foreign dollar bonds, of which 33 per cent consist of issues of the highest grade; 18½ per cent of industrials bear an A1+ rating, while less than 12 per cent of public utilities carry the A1+ rating.

Rails Also Lead in Second Group

IN the second group, consisting of issues rated A1, the rails again lead with approximately 28 per cent as compared with 22 per cent for the public utilities, 16 per cent for foreign dollar issues, and 11 per cent for industrials.

Of the third-grade issues (those rated A), the public utilities are in the van with approximately 30 per cent, as compared with 25 per cent for industrials, 13 per cent for foreign dollar issues, and 12 per cent for rails.

The industrial bonds bear the dubious distinction of carrying the greatest proportion of speculative and semi-speculative issues, or, in other words, those rated B, or lower. Nearly 12 per cent of the industrial bonds are of that character, as compared with approximately 8½ per cent for the public utilities, 8 per cent for foreign issues, and less than 2½ per cent for the rails.

These 4000 issues of bonds are outstanding to a total of approximately \$36,000,000,000. Of this total, almost 16 per cent, or nearly \$6,000,000,000, is comprised of bonds which were recently selling at or above their callable price, limiting further market appreciation.

Those whose duty it is to maintain

Rating	Railroads		Public Utilities		Industrials		Foreign Dollar Issues	
	Out-standing	Per Cent	Out-standing	Per Cent	Out-standing	Per Cent	Out-standing	Per Cent
A1+	\$5,714.2	46.9	\$1,170.4	11.7	\$1,236.2	18.4	\$2,400.0	33.6
A1	3,403.3	27.9	2,237.4	22.3	761.2	11.2	1,155.1	16.2
A	1,493.4	12.3	2,941.7	29.2	1,712.6	25.0	977.4	13.7
B1+	743.6	6.1	1,800.7	17.9	1,439.7	21.3	1,118.3	15.6
B1	472.6	3.9	1,047.4	10.4	837.5	12.4	1,012.7	14.1
B	89.5	0.7	540.2	5.4	527.0	7.9	434.9	6.1
C1+ to D incl.	271.0	2.2	316.2	3.1	253.4	3.8	45.7	0.7
Total	\$12,187.6	100.0	\$10,054.0	100.0	\$6,767.6	100.0	\$7,144.1	100.0

Key to Ratings: A1+—Highest class. A1—High grade. A—Sound. B1+—Good. B1—Fair. B—Semi-speculative. C+—Speculative. C1—Highly speculative. C—Uncertain. D1+—Weak. D1—Very weak. D—Doubtful value.

proper diversification of their own or their clients' bond lists will be interested to know just how these bonds, which are selling at or above their call price, are divided as to groups and ratings, and we are accordingly giving a table classifying them:

terminal issues, too, are in the highest rating group.

Of the total of \$12,250,000,000, "legal" rails comprise nearly \$4,000,000,000. The term "legal rails" refers only to bonds legal for savings bank investment in the state of New York.

the outstanding issues in order are the "electric light, power and gas," the "electric light, power, gas and traction," the traction "holding companies" and electric light and power.

Out of the Investment Class

WHEN we get out of the investment class and into the B1+ bonds (or those which might be regarded as a reasonably good business man's investments) we find that the "electric light, power, gas and traction" and the traction issues are far in the lead.

"Holding" companies lead in amount in the B1 class and are followed by the traction issues in this group.

In the case of the bonds rated B, the position of these two groups is reversed, the traction issues forming the larger part, with the "holding" companies next. It seems worth while to point out, in reviewing this B group, that of the total of electric light and power bonds outstanding, only about \$2,500,000 are rated so low.

Passing into the lowest class of issues—those rated C1+ and lower—we find that the total of \$316,200,000 is made up principally of issues of traction "holding" companies and natural gas properties.

Of a total of over \$10,000,000,000 of

At or Above Call (00,000 Omitted)

Rating	Railroads		Public Utilities		Industrials		Foreign Dollar Issues	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
A1+	\$238.7	30.6	\$237.0	12.4	\$257.1	20.4	\$391.8	20.8
A1	254.7	32.6	647.9	34.1	166.2	13.2	608.9	32.5
A	107.0	13.7	509.8	26.7	457.7	36.5	421.8	22.4
B1+	111.7	14.3	341.1	17.9	143.1	11.4	298.1	15.9
B1	68.7	8.8	115.9	6.1	114.1	9.1	128.1	6.7
B	.....	.....	46.8	2.4	115.0	9.2	32.1	1.7
C1+ and lower	.....	.....	.....	.....	2.4	0.2	.....	.....
Total	\$780.8	100.0	\$1,900.0	100.0	\$1,255.6	100.0	\$1,880.8	100.0

Here, again, the evidence is all in favor of the railroad bonds. Of the foreign dollar issues, nearly 26 per cent are selling at or above their call price, while 18½ per cent of the industrials, 18 per cent of the public utilities, and only slightly over 6 per cent of the rails are in this category. The principal reason for this is that the large majority of railroad bonds are non-callable except in the cases of issues carrying high coupon rates.

We have divided these 4000 issues into the four main groups—railroads, public utilities, industrials and foreign dollar issues—and have endeavored to subdivide each of these groups to bring out, as nearly as possible, the average qualities offered by each subdivision.

Most Rails in First Class

WE present here a table showing the railroad issues totaling nearly \$12,250,000,000, and subdivided, as usual, according to rating:

Railroads (00,000 Omitted)				
Rating	Railroads	Equipment Trusts	Railroad Terminals	Total
A1+	\$4,580.3	\$881.1	\$252.8	\$5,714.2
A1	3,234.6	160.0	8.7	3,403.3
A	1,452.4	37.8	3.2	1,493.4
B1+	739.9	.....	3.7	743.6
B1	471.3	.....	1.3	472.6
B	89.5	.....	.....	89.5
C1+ and lower	268.8	.....	2.2	271.0
Total	\$10,836.8	\$1,078.9	\$271.9	\$12,187.6

Legal Rails (00,000 Omitted)			
Railroad issues, including equipment trusts and terminal issues	A1+	A1	A
	\$2,751.9	\$947.0	\$235.1

The foregoing table outlines the desirability of railroad bonds as investments. Of the total of \$12,250,000,000 of such issues, over \$11,500,000,000 is comprised of bonds rated A or better. In other words, about 90 per cent of railroad issues we consider as of an investment caliber.

Out of a total of approximately \$1,078,000,000 railroad equipment trust issues, about 85 per cent are in the A1+ class and most of the remainder in the A1 group. There are no railroad equipment trust issues rated lower than A. Approximately all of the railroad

As might be supposed, \$2,750,000,000 of the total of approximately \$4,000,000,000 of "legals" are railroad issues carrying the highest rating, while a total of nearly \$1,000,000,000 is made up of bonds of the second class, or those carrying the A1 rating.

The table below, we believe, will be of interest, as it classifies public utility securities in accordance with rating and with the class of service which the issuing companies render. The table follows:

Public Utilities (00,000 Omitted)

Rating	A1+	A1	A	B1+	B1	B	C1+ and Lower	Total
Elec. lt. and power....	\$412.5	\$607.5	\$428.3	\$114.4	\$28.6	\$2.6	\$2.1	\$1,596.0
Gas	55.8	131.2	182.0	62.4	49.8	15.4	1.0	497.6
Elec. lt. pwr. and gas	26.1	334.9	501.0	220.7	61.2	17.2	3.6	1,164.7
Elec. lt. pwr., gas and traction	7.7	95.3	479.6	445.1	91.2	37.3	8.0	1,164.2
Holding companies .....	.....	84.1	433.6	297.2	476.5	131.4	45.4	1,468.2
Hydroelectrics	110.5	372.8	279.8	134.8	58.2	10.1	1.6	967.8
Natural gas .....	.....	3.8	28.6	45.7	11.8	44.2	36.5	170.6
Telep. and teleg.	520.6	488.3	87.3	10.0	13.9	8.1	.....	1,128.2
Toll bridges .....	.....	2.4	39.9	6.0	15.5	7.0	.....	70.3
Traction	29.3	74.1	447.5	350.8	233.4	252.8	211.0	1,598.9
Water	7.9	45.4	71.6	79.7	16.8	5.6	.....	227.0
Total	\$1,170.4	\$2,237.4	\$2,941.7	\$1,800.7	\$1,047.4	\$540.2	\$316.2	\$10,054.0

These figures throw considerable light on the relative quality of various types of public utility bonds. Take, for example, the case of the electric light and power issues. Of the total, no less than 90 per cent are rated A or better. In other words, the majority of such bonds are of investment calibre.

The same applies to telephone and telegraph issues. In this case, the ratio of bonds rated A or better is even greater than that for the electric light and power concerns. Of the total of \$1,170,400,000 of public utility bonds rated A1+, more than 80 per cent consist of electric light and power and telephone and telegraph issues. One rather significant point is that in the A1+ group we find no bonds issued by any natural gas, toll bridge, or "holding" companies.

In considering public utility issues of the next grade (those rated A1) we find again that the lead is held by the electric light and power issues and the telephone and telegraph. But in this particular rating the hydro-electric and the "electric light, power and gas" groups also are largely represented.

In the third group (those rated A)

public utility bonds outstanding, almost 65 per cent are in the investment class—certainly a very satisfactory showing.

The accompanying table follows the form of the previous tables and subdivides industrial bonds according to the nature of the business rendered by the various issuing companies and according to rating. (See page 175.)

The most striking thing in this table is the fact that of the total of about \$1,250,000,000 of industrial bonds rated A1+, no less than \$950,000,000, or over 75 per cent of the total, is made up of steel and petroleum issues.

Adequate Diversification of Industrials Difficult

THERE are no building supplies, chemical, paper, real estate, rubber, sugar or textile issues among the issues which we rate A1+. This makes adequate diversification of highest grade industrial bonds very difficult.

In the second class, or those rated A1, the steel and petroleum issues again are in the lead and are closely followed by food company bonds.

(Continued on page 175)

The Logical Man and the Logical Bank

WHENEVER there is a vacancy to be filled—a promotion to be made in a bank—there usually is someone whose special fitness for the position is recognized by the thought—"he is the logical man,"—which verdict of his superiors is hard to upset; and if concurred in by his associates is a fair indication that he had been fitted a long time for the better place.

What makes a man the logical man for the better place?

Not the favor of someone in power, for then neither official circles nor office opinion reaches the verdict expressed in the foregoing words; not the influence of friends who like him for companionship, or the quality of his neckties or the fraternity pin he displays.

The common man suddenly stands forth as the logical man because of developed abilities and developed character. Often it has happened that he has been quietly accumulating knowledge, quietly and silently preparing for the greater responsibilities while others placed more dependence upon ostentation, golf and systematic display.

Though he may not always have been conscious of it, his motto has been "I'll get ready and perhaps my

chance will come." In these days of opportunity the slogan might be changed to "I'll get ready—and I *know* my chance will come!" Most biographies are stories of men who rose because they thus made themselves the logical men for the high places they filled.

As with men—so with institutions. There is work to do, and there is opportunity in many communities for banks to do, things banks are not doing—though they are the logical institutions for the work. If the acceptance of opportunities means reward—as it usually does—the refusal to incur responsibility may mean regret—as it usually does.

There constantly are complaints that the field of banking has been encroached upon by other institutions rendering services properly belonging to banks. Here is where the logical institution did not recognize its opportunities or elected not to develop them and, therefore, is tasting only of the penalties of neglect.

The world seems to gain new speed from year to year. He who serves the public cannot serve it with what he likes but what the public wants.

Back in the early days of the World War, Admiral Fiske cried, "Prepare or perish!" Even today that is a good slogan for bank employees and for banks as institutions—prepare for what the world wants.



*"Give the public what it wants
before it knows it wants it!"*

BY JAMES E. CLARK

Succession to Trust Powers on National Bank Consolidation

By THOMAS B. PATON
General Counsel, American Bankers Association

Trust Succession Denied in Massachusetts, Clause of McFadden Act So Providing Held Unconstitutional. Succession May be Upheld in Such States as California, New York, Pennsylvania and Illinois but in Majority of States Situation Uncertain.

A NATIONAL bank which consolidates with a trust company in Massachusetts under the Consolidation Act of Congress of Feb. 25, 1927 (the McFadden Act), does not succeed the trust company as executor of a will to which such trust company had been appointed and the trust succession provision of that Act is in contravention of state law and is also beyond the power of Congress and unconstitutional.

This is the startling proposition decided by the Supreme Court of Massachusetts in the case of Worcester County National Bank, petitioner (filed May 29, 1928) 162 N. E. 217. This decision is contrary to an opinion of the Comptroller of the Currency heretofore rendered that by virtue of the McFadden Act a consolidated national bank "acquires the legal right and power to continue to handle the trust business already on the books of the state bank or trust company and to continue to serve as trustee, executor, etc., in all cases in which the state bank or trust company was acting at the time of consolidation" and also "would be legally entitled to be appointed as executor, trustee, etc., under all wills executed prior to the consolidation which named the trust company to act in such capacities, even though such wills are not probated until after the consolidation."

Succession Clauses in Wills

THIS decision brings to the fore, in view of the frequency of such consolidations in a number of states, questions of nation-wide importance to the banking fraternity which will require a decision of the Supreme Court of the United States to clarify and may also call for legislative action on the part of state legislatures, if not by Congress, to settle the subject satisfactorily and make the transference of trust powers upon such consolidations effective. It also opens up the question of the practicability and desirability of incorporation of trust succession clauses in wills and other instruments creating trusts. The decision seems to be based more on legal technicalities than in accord with the popular understanding that when a corporation named as trustee lawfully

changes its form of organization it nevertheless continues its identity.

Consolidation Acts of 1918 and 1927

UNDER the Act of Congress of Nov. 7, 1918, two or more national banks in the same locality are permitted to consolidate but until the enactment of the McFadden Bill, Feb. 25, 1927, there was no provision for a state bank or trust company to consolidate directly with a local national bank and it was necessary for the former first to become converted into a national bank by an intricate and expensive process. The Act of 1927 added a new section, 3, to the Act of 1918 which permitted any state (or District of Columbia) bank (including trust companies) to consolidate with a local national bank, under specified conditions; and it provided the following transferee clause which is similar to the transferee provision of the Act of 1918 respecting national bank consolidations, except it adds the trust succession clause below italicized:

"and all the rights, franchises, and interests of such State or District bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District bank so consolidated with such national banking association."

The italicized portion of the above provision is held in contravention of state law and unconstitutional, the remainder being separable and valid. A synopsis of the reasoning by which the court reaches its decision will be informative.

Consolidation Valid But No Trust Succession

A MASSACHUSETTS trust company appointed executor of a will consolidated with a national bank under the

Act of 1927. The national bank petitioned to render an account as executor. The Supreme Court of Massachusetts denying the petition, holds:

Consolidation Valid

1. The consolidation, broadly speaking, is not in contravention of the law of Massachusetts and is valid. While there are no statutory provisions in Massachusetts authorizing or recognizing such a consolidation, the Supreme Court of the United States (Casey v. Galli, 94 U. S. 673) has established the proposition that no authority from a state is necessary to enable a state bank to convert into a national bank and this controlling principle applies equally to a consolidation. The General Laws of Massachusetts (Chap. 172, Sec. 44) contained provisions regulating the consolidation or merger of trust companies in the state. By Chapter 292, Acts of Massachusetts 1922, the following provision was added:

"The charter of a trust company, the business of which, shall on or after July 1, 1922, be consolidated or merged with, or absorbed by, another bank or trust company shall be void except for the purpose of discharging existing obligations and liabilities."

This word "bank" in a law devoted exclusively to trust companies indicates legislative recognition that consolidation or merger of a trust company with a "bank" including a national bank, was contemplated; hence, subject to the limitation contained in the Act of 1922 that the trust company charter, upon consolidation, becomes void and to other limitations developed in the course of the opinion, the consolidation is permissible and valid and not in contravention of state law.

National Bank Succeeds to Property Rights

2. The legal effect of the consolidation is that the trust company goes out of existence, its charter becoming void under the Massachusetts Act of 1922 and it being provided in the Act of Congress of 1927 that the consolidation shall be under the charter of the national bank. All the property of the trust company of every nature (but not its franchise) goes into possession and becomes the property of the national bank, which continues its existence and identity under its original charter.

National Bank Does Not Succeed to Trust Powers

3. In view of the legal effect of the consolidation under which the trust company goes out of existence, it follows that its identity as a fiduciary appointed by the court of probate has not been continued in the national bank but has been extinguished. In many respects the identity of consolidated corporations is continued in the absorbing corporation. This is true as to contract obligations and liabilities incurred. In *Metropolitan Bank v. Claggett*, 141 U. S. 520, the Supreme Court of the United States, speaking of the conversion of a state bank into a national bank, said: "The change or conversion did not close its (the state bank's) business of banking nor destroy its identity nor its corporate existence, but simply resulted in a continuation of the same body with the same officers and stockholders, the same property, assets and banking business

under a change of jurisdiction; it remained one and the same bank." But the present consolidation differs in essential particulars. The expressions quoted were used in a judgment touching contract litigation and must be interpreted as applicable to the facts before the court. They are not applicable to the peculiar positions of trust like executor, administrator and other fiduciary relations established under the law and practice of Massachusetts. It is the duty of the Massachusetts court of proper jurisdiction before appointing an executor, administrator, trustee or other fiduciary, to inquire carefully as to his character, integrity, soundness of judgment and general capacity and to make the appointment only after a favorable finding on these points. The duty of inquiry is just as imperative with respect to a trust company or national bank as with respect to an individual. An executor is appointed by the court as the result of a judicial decision. The national bank is a different corporation from the trust company. The court says:

"Identity with the trust company in the sense in which that word is used under our system of judicial appointments of fiduciaries cannot be attributed to the national bank into which the trust company has been consolidated. The identity of the trust company as such a fiduciary cannot be regarded as so continued in view of the express provisions of St. 1922, c. 292, to the effect that on consolidation its charter shall be void. That its identity cannot be held to be thus continued seems to us clear in view of what has been said earlier in this opinion."

"The trust arising from appointments to such positions as executor, administrator and the like is highly personal. It is not commercial. It is not contractual. It is not a property right. It involves no pecuniary interest on the part of the fiduciary. *Ensign v. Faxon*, 224 Mass. 145, Commonwealth v. Atlantic National Bank of Boston, petitioner, 249 Mass. 440, 445, *Wilkinson v. McIntyre*, 254 Mass. 325, 330. A strictly confidential relationship of this nature cannot survive such a transmutation as is wrought by the consolidation of a state bank with a national banking association under the charter of the latter in accordance with the terms of said §3. To treat the national banking association into which the state trust company has been consolidated as preserving the identity of the trust company in this particular would be contrary to the juridical conception and practice touching the appointment of such fiduciaries under the law of this Commonwealth."

Trust Succession Provision Contrary to State Law

4. The court construes the trust succession provision of the Act of Congress of 1927 to mean that in case of consolidation a national bank shall possess and enjoy all appointments as executor, administrator or other fiduciary held by the absorbed state bank by virtue of any decree of any court without further action by the appointing court, as fully and completely as if it were the state bank or as if it had been originally appointed to this fiduciary position by the court. Notwithstanding the national bank is a different corporation, under the act no new appointment by the probate court is required or contemplated and the original appointment is to continue unaffected by the fact that the trust company whose credit, standing and competency formed the basis of the judicial inquiry and action culminating in its appointment has ceased to be and a different corporation, whose credit, standing and competency has never been the subject of judicial inquiry for this purpose, is to act in its place as executor. Having this meaning, the court holds such trust succession provision "in contravention of the law" of Massachusetts. The provision requires the courts of Massachusetts to recognize and accept, without inquiry or hearing, as fiduciary in place of a trust company now non-existent, which was appointed by the court by solemn decree, a national bank which is a different corporation, established under the laws of a different sovereignty, possessed of different powers, subject to different governmental supervision and controlled by different officers. Such requirement relates to a subject in which all beneficiaries and others interested in the estates of deceased persons and in the administration of trusts for the benefit of minors, insane persons and the aged and infirm under conservatorship have a vital interest; it relates to a trust estate in process of settlement under direction of the court. The trust succession clause is contrary to Art. 30 of the Declaration of Rights of the Commonwealth under which the legislative department shall never exercise the executive and judicial powers or either of them. It is of no consequence from

what legislative body the interference with the judicial function may come. Therefore it is in contravention of the law of the Commonwealth in a fundamental sense for its courts to be compelled, in compliance with the mandate of a legislative body to recognize as fiduciary a different corporation simply because, without judicial proceedings and by mere act of the stockholders and officers (who may have ceased to be such) approved by an executive government official, the corporation appointed as fiduciary has been consolidated with it, without any judicial determination as to the fitness of such different corporation to perform the duties of fiduciary.

Trust Succession Provision Unconstitutional

5. The Massachusetts court recognizes that Congress may require state courts to appoint national banks as fiduciaries upon the same terms as domestic banks are appointed but it says the trust succession provision goes far beyond that. It does not declare a general policy for the states to pursue in performing their judicial functions with respect to national banks but altogether abolishes the judicial function with respect to a subject essentially judicial—who shall act as fiduciaries under judicial appointment—and substitutes a legislative determination. Says the court: "The question is not whether the state court shall hold a hearing and determine, in accordance with its settled procedure and the guiding federal statute requiring the appointment of national banks upon equal terms with domestic trust companies, whether the particular national bank ought to be appointed to the fiduciary position. * * * But the question is whether the state court must accept and recognize this national bank, never a party to any of its proceedings and unknown in its records, as its fiduciary not as a result of judicial determination but as a result of the mandate of Congress. To recognize such a mandate in substance and effect is to approve the exercise of a judicial function by a legislative body. We understand that it has always been held by the Supreme Court of the United States that Congress is prohibited by the Constitution of the United States from exercising judicial functions." Further the court says: "Not only is the mandate addressed to a judicial function but it relates to a subject outside the field of Congressional legislation. * * * The general subject of the settlement of estates of deceased persons and the appointment of fiduciaries to administer trusts is within the exclusive jurisdiction of the state. No clause of the Constitution of the United States confers any such power upon Congress. That power is not forbidden to the states. * * * It falls among the powers reserved to the states." The consequence is inevitable, says the court "that Congress has no power by simple legislative fiat and without provision for judicial inquiry and decision to make it imperative upon any court of this Commonwealth to recognize the present accountant, a corporation hitherto an utter stranger to its proceedings and records, as the officer and appointee of such court in a highly fiduciary capacity. We feel compelled to reach the conclusion that this clause of §3, Chap. 191, Act of Congress, February 25, 1927, here under discussion, is unconstitutional."

Remainder of Consolidation Provision Valid

6. The court holds, however, that the trust succession clause is not the dominant feature of §3, but is subsidiary and incidental to its main object, which is to authorize the consolidation of state banks with national banks; that this clause is separable and distinct, that the rest of the section may stand independently and there is no such connection between the valid and invalid parts as to support the view that Congress would not have enacted the valid part without the other.

Final Determination

7. The final determination of the court is that the trust succession clause be stricken down as unconstitutional and that the consolidation in question, made pursuant to the Act of Congress is not in contravention of the law of the Commonwealth. The court points out that the case might have been disposed of with the same result on the ground that when the will of the testator was allowed and the trust company appointed executor, there was no law permitting a trust company to consolidate directly with a national bank and therefore the Act of Congress having been subsequently enacted, could not be operative to affect a decree of the court previously entered into and the rights of beneficiaries of the estate under such decree. But the court states the point has not been considered or argued because it seemed preferable to decide

the case on the grounds already stated. The declared result is that the national bank has not succeeded to the trust company as executor and is not entitled to render an account as executor.

National Bank Administratorship Unaffected by Consolidation

ON the same day as the above decision, the Supreme Court of Massachusetts handed down an opinion in another case involving the same consolidation (*Worcester Co. National Bank*, petitioner, 161 N. E., 797, filed May 29, 1928) in which the national bank appointed administrator had consolidated with a trust company and changed its own name. The decision in this case is that the national bank remains as administrator and is entitled to render an account as such. The consolidation was under the charter of the national bank and its corporate identity as administrator is held to have continued unaffected by anything in connection with the consolidation.

Trust Succession Denied Prior to Act of 1927

BEFORE discussing the situation created by the recent decision of the Supreme Court of Massachusetts holding against succession, it may be well to notice two previous decisions rendered by the same court, one in 1924 and the other in 1927, in cases where trust companies had been first converted into national banks and then consolidated with other national banks under the Act of Congress of 1918, denying trust succession; also a third decision of the same court, intervening in point of time between these two cases, in which the right of a national bank to succeed to an impersonal business trust originally committed to the trust company is recognized, being differentiated by the court in its 1927 decision.

In the first of these cases (petition of *Commonwealth-Atlantic National Bank* of Boston, 144 N.E. 443; decided in 1924) a trust company in Massachusetts had been designated in a will as executor and had then converted into a national bank which consolidated with another national bank under the latter's charter. The national bank's petition for letters testamentary as executor was denied on the ground that the national bank was not the person named in the will and that it was the duty of the court to carry out the intention of the testator as expressed in the will. The court conceded that a state bank can be converted into a national bank under Congressional and without state authority, and that the state bank did not become non-existent, but continued its identity; the court assumed that the purpose of the Act of Congress of 1918 was to continue the identity of the consolidated banks in the bank under whose charter the consolidation was effected, but did not decide the legal effect of the consolidation; the court held, however, that the executorship named in the will did not

pass as a property or asset either to the converted or to the consolidated bank. It was pointed out that there was no statutory provision in the Massachusetts law that a converted or consolidated bank should succeed to the privilege and rights with respect to unproved wills—the effect of such a statute was not decided—but the court remarked that the argument would be strong that legislation to that effect by a competent body would be effective. The court said that while for most, perhaps for all, business purposes the new business corporation succeeds to and continues the identity of the old, nevertheless a trust company in Massachusetts is so different from a national bank that in regard to being executor, the national bank was not the person intended by the testator nor named in the will. Among the points of difference enumerated by the court were these: (a) the two institutions were organized and controlled by different sovereignties; (b) the one as executor was and the other was not under the control of the local court; (c) the trust company was required to comply with state statutes as to investment of trust funds—such rules as to national banks were uncertain; (d) the Massachusetts statute and the Federal law as to segregation of trust funds were different; (e) the stockholders of the trust company were liable for the performance of the trust—the national bank statutes on this point were different; (f) there were divergent supervision and liquidation statutes; (g) the trust company named as executor was not impersonal, and the testator may have had a preference between institutions. These reasons led to the conclusion, above stated, that the national bank was not the executor named in the will. It is to be noted that the bank took this case to the Supreme Court of the United States, and a writ of certiorari was denied by that court, 266 U. S. 617.

Following this, came the second decision above referred to (petition of Commonwealth-Atlantic National Bank, 158 N. E. 780, rendered Nov. 22, 1927), where a trust company in Massachusetts had been appointed trustee under a will by a probate court in two instances and conservator of an estate in a third. The trust company afterward was converted into a national bank, which consolidated with another national bank. Later the name of the national bank was changed. In all these instances, following the reasoning of the previous decision, the national bank was held not the fiduciary appointed by the probate court and not entitled to account as trustee or conservator. The national bank was held to be a different corporation from the trust company originally appointed; the Federal law requiring the courts of Massachusetts to appoint national banks upon the same conditions as they would appoint trust companies as fiduciaries did not reach the case at bar. The trust company had no such property interest in its appointments as trustee or conservator as passed to the national bank as its successor.

National Bank Can Succeed to Impersonal Business Trust

INTERVENING between the two decisions last above cited was another decision by the Supreme Court of Massachusetts, from which it would appear that a national bank may succeed to a business trust of an impersonal nature, originally confided to a trust company (Iowa Light, Heat and Power Co. v. First National Bank, 145 N. E. 433; decided in 1924). In this case property was mortgaged by a corporation to a trust company in Massachusetts as trustee to secure an issue of bonds. The trust company was converted into a national bank which consolidated with another national bank, and the latter was made defendant in a suit by the mortgagor corporation to require it, as trustee, to release certain of the mortgaged property. The court, without discussing the question of trust succession, held that the consolidated national bank "succeeded to all the rights, title, and powers of" the trust company and "is trustee for the bondholders." Then it proceeded to a discussion of the main issue in the case, holding that, because of certain provisions in the trust mortgage, the bank was not compelled to release the security.

In the second of the two decisions above referred to (158 N. E. 780), the court refused to recognize its decision in the mortgage trust case as controlling. It maintained that the decision that the consolidated national bank succeeded as trustee of the mortgage was right, because the trust mortgage was a contract between competent parties and the rights and obligations arising therefrom were chiefly contractual in nature, although partaking of a subsidiary fiduciary nature. It pointed out that fiduciary relations resting on statutory provisions and founded on a decree stand on a different footing with respect to succession by a different corporation.

The Problem of Consolidated National Banks

IN the light of the foregoing, let us consider the problem which the recent decision of the Supreme Court of Massachusetts presents for the consideration of national banks in the various states which are contemplating consolidation or have actually consolidated with trust companies or state banks under the Act of Feb. 25, 1927, and taken over, as they supposed, executorships and trusteeships under wills or other fiduciary relationships in which the state institution was acting at the time of consolidation, as well as the right to be appointed executor or trustee of wills not probated until after the consolidation.

The transferee clause in the Act of Congress of 1918 for the consolidation of two or more national banks was doubtless framed and enacted in the light of similar language in statutes in New York and Illinois, under which it

had been held in those states in the case of consolidation or merger of state corporations, that not only property rights but trust functions were transferred to the merged or consolidated corporation; and a similar transfer provision was inserted in the original draft of the Act of 1927 for the consolidation of national with state banks. It was only after the decision of the Supreme Court of Massachusetts in 1924, which held in the case of a trust company executor, converted into a national bank and consolidated with another national bank, that the latter was not the executor named in the will, but was a different corporation with a different identity, that the trust succession clause, "including the right of succession as trustee, executor or in any other fiduciary capacity," was incorporated in the bill which finally became the Act of Feb. 25, 1927. The legislative intent presumably was to continue the identity of the trust company as trustee in the consolidated national bank, at all events as to wills executed and trusts created after the passage of the Act which would be created in view of that statutory enactment so that the terms of the statute would enter into the intent and be read into and become a part of every will or trust declaration or appointment thereafter made.

But this trust succession provision is now overturned by the Supreme Court of Massachusetts, and national banks which have effected or are contemplating, consolidations are left in a condition of uncertainty as to the right of succession of trust powers.

As this case will be taken to the Supreme Court of the United States, the first inquiry which naturally arises is as to the likelihood that the trust succession clause of the Act of 1927 will be upheld.

The Case Before the Supreme Court

LET us first briefly consider the situation which awaits the decision of the highest tribunal. The Supreme Court of the United States, by refusing a writ of certiorari, has allowed to stand the decision of the Supreme Court of Massachusetts in 1924 that the designation in a will of a trust company as executor does not pass as property or an asset through conversion of the trust company into a national bank and consolidation with another national bank, and that the consolidated national bank is not the person intended by the testator as executor named in the will. But we do not regard such refusal as creating a precedent equivalent to a decision of the Supreme Court of the United States on the points involved which would prevent that court from announcing a different view upon careful consideration of the Massachusetts decision now rendered. "The refusal of the Supreme Court to grant certiorari . . . in no sense indicates its approval" of the decision in which certiorari is denied "as that tribunal has said over and over again." U. S. v. Gokhale, 26 Fed. (2nd) 360.

(Continued on page 170)

As Cartoonists View Events of the Day



Doing Their Best to Reduce His Delirium.—Ding in the Rochester Democrat and Chronicle



Not Looking for More of That Sort.—Hall in the Bangor Daily Commercial



Rolling in Wealth.—Cargill in the Jersey Journal



Ding in the Toronto Mail and Empire

The Trend of Banking Costs and Profits Is Leading to—?

By ANDREW MILLER

Secretary, West Coast Bancorporation, Portland

There Has Been a Reduction of Nearly Fifty Per Cent in the Net Earnings of National Banks as a Whole in a Period of Twenty Years. Regarded as an Index to All Banking. Why Have the Profits Decreased? Formula Adaptable to Bank, Large or Small.

NET earnings of all national banks for the year ending June 30, 1908, were \$131,335,286.52, or 2.12 per cent of total deposits. Net earnings of all national banks for the year ending June 30, 1927, were \$252,319,000, or 1.13 per cent of total deposits! A reduction of nearly 50 per cent in earning power.

Twenty years ago a famous New York banker made certain predictions about banking. He said this country would have a strong central bank, a truly flexible currency system, and aggregate deposits far greater than anyone had previously ventured to suggest.

This banker also stated that narrowing margins of profits would compel greater efficiency and economy, result in sharper competition and lower interest rates and that in the throes of the economic struggle, hundreds of banks would close because of inability or unwillingness to conform to changing conditions.

The esteemed gentleman has been at rest these many years, but his prophecy has in nearly all respects been in accord with the actual development of banking. (It is pertinent to comment that in 1908 total resources of the largest bank in the United States were less than \$100,000,000.)

Today, in the midst of gigantic totals, frequent mergers and unprecedented failures, bankers are pausing to ask many questions as to present and future bases of operations, realizing that a thorough study of banking as a science and the most rigid adherence to sound principles are demanded of the successful banker. Rather abruptly, we have come to a realization that we are grown up—financially—and come into our majority. Isolation and sectionalism are no longer effective walls of protection for inefficiency. Modern business is reaching even into remote places; to

refuse it admittance is a futile gesture. It will not be denied.

On banking, its immediate and effective attack is through rapidly diminishing profits. For it is so, that in recent years the net profits of banks have slumped to a level where it is exceedingly difficult, if not impossible, for thousands of banks to continue to operate on a reasonable dividend-paying basis, charge off normal depreciation and losses, and build up surplus funds adequate for a constantly growing business with its ever widening responsibilities.

It is the mood of the times tritely to refer to this condition as the "Dilemma of Diminishing Profits" and "Profitless Prosperity." These expressions unfortunately are true enough, but they do not help the banker who is bending every effort toward operating a sound bank, adding to its deposits steadily and paying a fair dividend on invested capital.

Five Questions to Answer

WHAT, definitely, is the situation, and wherein have profits decreased? Can we answer these questions:

1. Have net profits of banks decreased inversely to volume of deposits?
2. Has the return on invested capital increased or decreased?
3. Causes of decreased profits; and are they permanent, or possible of adjustment?
4. Minimum percentage of profits necessary to operate on a permanent basis?
5. Methods of maintaining net profits on such basis?

Because of their availability and unquestioned authority, the figures of national banks as given in the published reports of the Comptroller of the Currency are used exclusively for reference.

The figures of national banks comprise a sufficiently large proportion of the total banking business transacted to serve as a fairly accurate index to all banking. In all likelihood, the experience of the state banks would be practically similar to that of the national banks.

Even a superficial examination of banking statistics over a period of twenty years makes it evident that net earnings have shrunk amazingly in proportion to the volume of business transacted. It

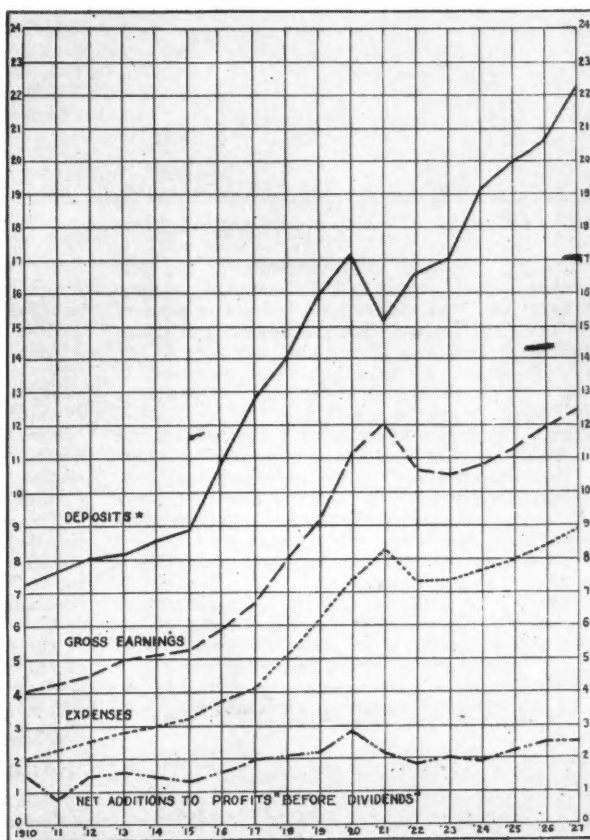


Chart A—Diverging trends; in billions of dollars

is fair to consider total deposits as a base upon which to estimate the relative progression of various factors entering into this discussion. The period 1908-1927 is chosen as sufficiently long to indicate the important changes that have taken place and that are now so seriously affecting the banking business.

Diverging Trends

IN the earlier year, 1908, the deposits of all national banks are given as \$6,200,254,000; and in 1927 they were \$22,287,238,000, indicating a marvelous growth. The rate of increase was 251 per cent.

As stated in the first paragraph of this article, net earnings of all national banks for the year ending June 30, 1908, are given as \$131,335,286.52, or a return of 2.12 per cent on total deposits. For the year ending June 30, 1927, net earnings of all national banks were \$252,319,000, or a return of 1.13 per cent on total deposits; a decrease of nearly one-half in earning power.

From these figures it will be seen that totals of deposits have increased very nearly three times as much as have the amount of net earnings. The comparative ratio of increase as between total deposits and net profits is 251 to 91.

Had the 1908 percentage of net profits to deposits been maintained in 1927, such earnings would have totaled \$472,489,000; or \$220,170,000 more than they actually were. Here is a definite reduction of 47.1 per cent in net profits in twenty years, as a return on a vastly larger amount of deposits, which must be regarded both as an index of earning assets and as liabilities. Our first question is definitely answered; a substantial reduction of net profits in proportion to deposits is clearly apparent.

Nor has this decrease come suddenly. It has been a gradual change, as will be

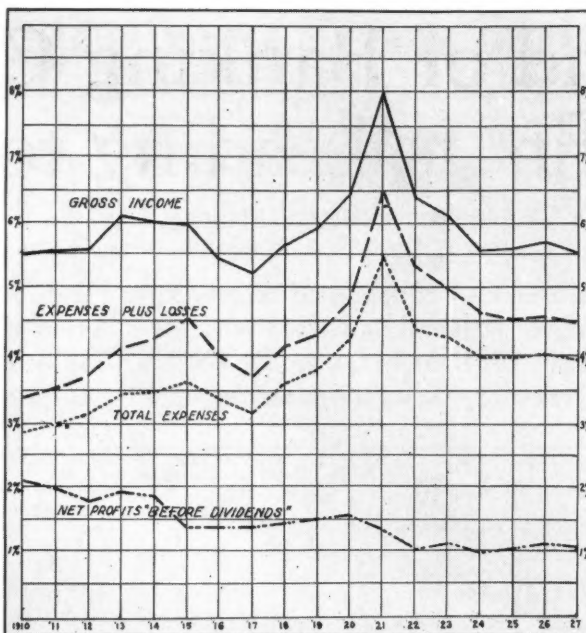


Chart D—Climbing expenses absorb earnings

The first decided lessening in the ratio of net profits to deposits was experienced in 1915, following the inauguration of the Federal Reserve System and subsequent loss of revenue, not only on reserve balances but from decreases in earnings from collections and exchange charges. From 1915 to 1921 profits ran along on about an even basis of 1½ per cent net on deposits until this figure became almost axiomatic among the banking profession. Failure to earn 1½ per cent on deposits implied that a bank would have a mighty hard time to meet current expenses and pay a fair dividend to investors.

In 1922 and 1923 the lower percentage of net earnings was due directly to the unusually large losses sustained. This is not true for the following four years, when a more normal loss ratio has obtained. Increased expenses have un-

other forms of business. On the contrary, the rate of gross earnings is usually lowered by frequent turnover, as periods occur when funds are unemployed. The rate also tends to be less when the amounts involved are of large proportions. In this connection it is illuminating and somewhat startling to realize that the net earnings of each of several industrial and public utility companies equal or exceed the aggregate net earnings of all national banks. For instance, General Motors Company with invested capital of approximately \$570,000,000, earned close to \$70,000,000 net for the first quarter of 1928. Estimated earnings for the next quarter are \$90,000,000. In other words, with one-fifth of the capital investment, the earnings of this one company will probably exceed, substantially, the aggregate net earnings of all national banks of the United States.

Ratio of Earnings to Capital

OUR second point for consideration is the comparative ratio of net earnings to invested capital for the same period, 1908-1927. Surprising, indeed, it is to find that the percentage of net earnings on capital and surplus was slightly higher in 1927 than it was in 1908, notwithstanding the fact that the

(Continued on page 159)

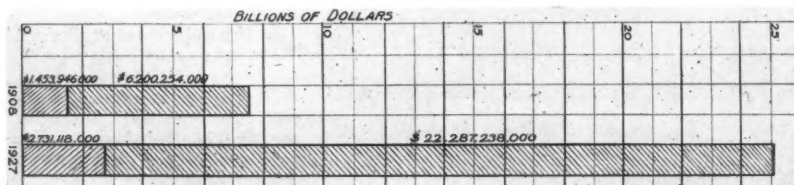


Chart B—Ratio of capital and surplus to deposits

readily seen from the accompanying table:

Annual Percentages of Net Earnings to Total Deposits			
1908.....	2.12	1918.....	1.51
1909.....	2.12	1919.....	1.58
1910.....	2.13	1920.....	1.64
1911.....	2.04	1921.....	1.42
1912.....	1.85	1922.....	1.12
1913.....	1.98	1923.....	1.20
1914.....	1.94	1924.....	1.02
1915.....	1.43	1925.....	1.12
1916.....	1.45	1926.....	1.20
1917.....	1.45	1927.....	1.13

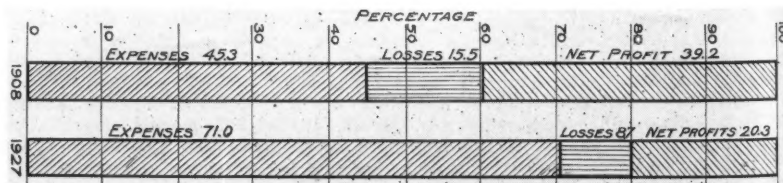


Chart C. Distribution of gross earnings

Independent Banks and the Rate Question

By A. J. VEIGEL
Commissioner of Banks of Minnesota

A Plea for the Preservation of the Independent Banking System Through Unity of Action by Bankers. Profits Needed for Preservation. Lower Rates on Time Deposits Suggested as the Way to the Greatest Savings and the Highest Degree of Safety for All.

I AM a strong believer in our independent banking system, in spite of all of its faults. The United States has a larger so-called middle class than any other country in the world. Therein lies its strength. I firmly believe that the independent banking system has been the prime factor in giving us this large independent class of citizens who are fairly well off.

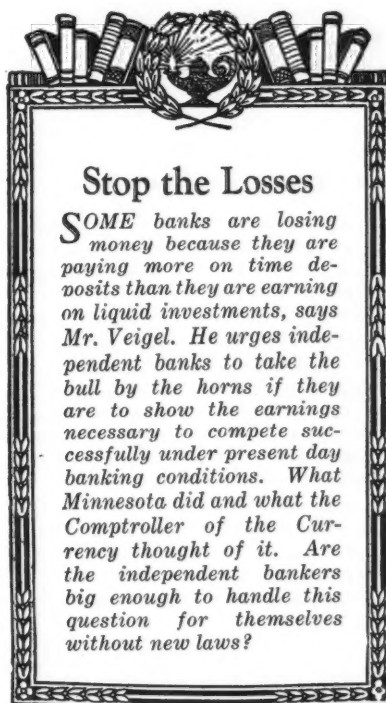
Everything possible should be done to preserve our independent banks. To do so it is necessary that bankers themselves take whatever action is necessary to prevent in the future the numerous bank failures which have occurred in the recent past.

Cooperation among independent bankers is now the most important thing to preserve our present system. If the majority of the bankers in any given group or territory decides it is necessary to have credit bureaus, regional clearing houses, make service charges, reduce interest rates, or anything else, the minority should join whole-heartedly with the majority. By doing so they not only improve their own condition, but materially help the general situation. Cooperation, printed in italics, should be the slogan of independent bankers.

Earnings from Lower Rates

THE public is more interested in having safe banks than it is in free services or high interest rates. In the long run, a bank must have earnings above expenses to be safe. Most banks have now decided that they are not charitable institutions. There is no good reason why banks should not charge for all services rendered, the same as every other business is doing.

The income of banks has been reduced because they now get much less in exchange, practically no commissions on mortgage loans, the interest received on bills receivable and bonds is less, and in many cases the volume is less. On the other hand their expenses for salaries, taxes, supplies and other costs are more. Little can be done in the smaller banks to reduce expenses, because in most cases the salaries are now inadequate. For them to balance their budget and show a profit, it is, therefore, necessary to increase the earnings.



Some additional earnings can be obtained by service charges of all kinds and banks should not hesitate to collect them, but the place where banks can save more money than from everything else put together, is to reduce the rates paid on time deposits. A reduction of 1 per cent in Minnesota would make about \$3,000,000. That 1 per cent saving would place many banks on a paying basis that have not made any money in the last few years. It would undoubtedly save some banks from closing in the future.

The Only Place Left

KEEPING in mind the undisputed fact that the public is primarily interested in safe banks and everything else is secondary, also the fact that banks must in the long run make money in order to be safe, it is then squarely up to the banks to do whatever is neces-

sary to show a profit. About the only place left to enable banks to make the necessary profits is to reduce interest rates on time deposits. Then why do they hesitate?

Many would like to reduce the rates, if all other bankers would do likewise. It is perhaps too much to expect of human nature that all bankers should agree. If certain banks in any given territory would reduce there would be no trouble. But from a practical standpoint that seems to be impossible and it is therefore necessary in many cases for banks to reduce without waiting for all banks to do likewise.

The experience in Minnesota has been that banks which reduced first were usually the more conservative banks. A thinking public knows that such banks are safer because of such reductions and in those cases they have not lost deposits and in many cases they have gained deposits.

Many Banks Losing Money

IT has been abundantly demonstrated that all banks should have at least 20 per cent of their assets in liquid form, or a so-called secondary reserve for emergencies. If this amount is invested in the best bonds and commercial paper, the interest rate is low. Many banks which pay a high rate on time deposits are actually losing money on such investments. This condition should not exist.

Doubtless it is not advisable or desirable for the different state banking departments or the Comptroller of Currency to fix arbitrarily the interest rates on time deposits, as conditions vary greatly in different parts of the country. The independent bankers themselves should be big enough to handle this matter in the interest of the public and of the banks. When, however, a condition exists where bankers do not do this, and when it can be clearly shown that some banks are slowly committing suicide by paying more interest than they can afford to pay and it becomes a question of the safety of the bank, then it seems to be the duty of the banking departments, in the interest of the depositors, to step in and compel such banks to
(Continued on page 178)

EDITORIAL

The Right of Succession

AMONG the articles in this month's JOURNAL, special attention is directed to that by Thomas B. Paton, General Counsel of the American Bankers Association, on the right of a consolidated national bank to succeed to a trusteeship.

A in his will names a state bank having fiduciary powers as executor or trustee. The bank named merges, or is consolidated with a national bank. Can the bank that is merged take along to the new institution its appointment under the will?

Already a big question in the United States, the importance of clarification on this point grows apace with the increase in the number of bank mergers.

The General Counsel's discussion of this subject should be of commercial value to every bank.

How Long Will It Last?

"HOW long will this diffusion of prosperity last and what will it do to us?" is a pertinent question not at all academic, as any newspaper of any day will show, but a very practical and timely question.

It is a question propounded and discussed in "This Economic World" by Thomas N. Carver and Hugh W. Lester, and to the many thinkers who are giving attention to the dangers of prosperity and the use or misuse of our leisure their considerations will be acceptable and useful.

"Men have been more carefully schooled for adversity than for prosperity," they say. "There is not and never has been a religion or a moral discipline that fortified the prosperous classes against these new dangers as the old religions and moral disciplines had fortified them or their ancestors against the old dangers. Consequently, every aristocracy which the world has ever known has been a decaying aristocracy. It has either disappeared or has been nominally preserved by constant recruiting from below.

"For the first time in history the masses themselves, in this country, are emerging into a condition of prosperity comparable to that of the aristocracies of any previous age. They have neither practical experience, nor a religion, nor a moral discipline that was ever designed to fortify them against these new dangers. Every religion that amounts to anything started among the poor and the afflicted. It flourished, if it did flourish, because it preserved its people in the midst of their poverty and their afflictions. It gave them a discipline which kept them true to the basic principles of right living in spite of the hardships which they had to endure. Hardship could not break them. Every modern sect, even Christianity, has had the same origin and flourished for the same reason.

"But a new thing has happened in this country. There are no longer any poor as that word was once understood. There are none who need the old discipline because they are not facing the old danger. A new danger, for which they have no discipline, is upon

them. Our civilization, of our branch of the human race, is facing a crisis. Unless it can speedily acquire the necessary experience, or unless some religious or moral discipline can be provided and made effective through great preaching, that is, preaching by men who not only see the crisis but can appeal with such passionate and overpowering eloquence as to turn the masses from the evils that always attend prosperity, the masses themselves will go the way of all prosperous classes. They will succumb to the same evils which have destroyed all aristocracies."

Many a man, in many a generation, has discovered that there are problems, vexations, penalties and dangers peculiar to wealth and prosperity just as there are trials and dangers peculiar to adversity and to poverty. Both sets of problems and dangers have been pretty well understood as they have applied to extreme cases, but out of America's great prosperity, in which not a few but practically the whole nation shares, there comes anew and in menacing form the problem of prosperity, not confined to the few but the menace of many; and by no means aloof from banking, as is evidenced by the long list of bank failures, the cost of protection and insurance, the losses to banks from within and without, and the penalties good banking and sound bankers have suffered because of a species of intoxication which has been born of our prosperity.

Banks Are Good Soldiers

WHILE the Federal Reserve System has had some success in forcing down the volume of brokers' loans the cooperation of the banks in that policy should not be overlooked. There has been a soldierlike discipline in the reserve system without which the raising of discount rates and other steps taken by the system would have been wholly ineffective.

The banks in the financial centers have done their duty. They have been willing to accept, even though they may have disagreed with it, the judgment of the Federal Reserve authorities as to credit policies. But they can not be held responsible for conditions over which they have no control.

There is something like \$1,700,000,000 of brokers' loans that are supplied by corporations, individuals or foreign interests, none of whom are subject to control by the banks. When the banks withdraw their funds from the call money market the rates go up. Attracted by the high rates the corporations and individuals rush in to get the benefit of attractive prices for money.

Usually the non-bank money comes to the call market the day after the rate has gone up. The new supply generally forces the rate down. The day after call money reached 10 per cent in July the flood of non-bank money cut the rate in half. Those who fail to get the benefit of the high loaning rates for call money are prone to blame the banks who must handle their business for them.

This type of speculation—putting money out on call—is growing. Some people have turned from the stock market to the call money market. They are speculating on the ability of the Federal Reserve System to curb speculation.

These non-bank loans on call are causing some concern. Bank operations are adjusted to the needs of both business and the stock market. The banks can divide the credit in required proportions. But the corporations and individuals with money out on call have no thought of the general credit situation. If they need the money in their business or see a better chance of earnings they take it out of the call market. The result is violent fluctuations in the call money rate for which the banks are not responsible.

The Presidential Campaign

BOTH of the great political parties as represented in the field of banking have an opportunity to do themselves and the country a service in the coming campaign for the election of a President of the United States.

Congress is beginning to turn to banking as a fertile field for activity. The indications are that there will be much of this activity in future sessions. There will be a certain amount of bank discussion during the campaign.

What is needed are definite, clear-cut ideas impressed upon the minds of the leaders of both parties as to what are the important banking questions of the day. Then there should be a clear understanding of where government relations to banking begin and end. This should give each party the basis for an intelligent set of principles which would serve as a guide for the consideration of bank legislation problems by Congress.

No matter which side wins in November the better understanding each party has of banking problems the better it will be for the country. Banks will have to be the educators.

The Chain Bank

OPPPOSITION to chain banking is much the same as that against branch banking. There are the opponents of both systems who emphasize the importance of the independent bank in American business. The fear that the big banks will "eat up" the little fellows is often expressed.

Economic arguments are put forth against chain banking based largely upon the recognized possibilities of bad or dishonest management by the controlling institution. The chain is no stronger than its weakest link. The country saw serious chain bank failures in the period of the Florida land boom collapse.

Yet modern business demands large-scale machinery. Present tendencies are toward centralized control and distribution. That trend is evident in nearly every line of business. Declining margins of profit are being met with lower expenses. Banking is keeping step with business and the chains appear to be a process in economic evolution.

Keep Them from Falling

THE personal loan department will help a man up when he is down but the savings department will keep him from falling down, excepting in out-of-the-ordinary cases. So while the personal loan department has its rightful place in the business of banking

and will, moreover, serve a humanitarian purpose of keeping unfortunate men and women out of the clutches of the loan sharks, it is the gospel of Thrift that will do most work in building the bank and the community the bank serves.

Push the campaigns for savings both for the good it will do the bank and for the stability that the growth in the number of savings depositors adds to the community.

Who May Use the Word Trust?

GREAT is the responsibility of the supervisors of state banks and large is their opportunity for constructive service to the people of their respective states. The good that may be accomplished by a commissioner of banking, possessed of tact and courage will never in the ordinary course of events be fully compensated for by his salary whatever it may be and the people at large who are the final beneficiaries of his best work probably never suspect the nature of the valuable service he renders to them. These men know the secrets of every bank vault within their jurisdiction, and from an eminence which the state has raised for the protection of the funds of the people, they view banking with the eye of a guardian.

Two resolutions which the state bank commissioners in their organization—the National Association of Supervisors of State Banks—adopted at their meeting in New York last month are interesting as reflecting the convictions of men in positions of peculiar advantage in banking.

One resolution favored representation of state banks on the Federal Reserve Board at Washington.

The other resolution declared it to be the sense of the convention that the word "trust" has heretofore been used only in the names of such companies and banking institutions as have fiduciary powers, and that as applied to investment trust companies the word is a misnomer, "susceptible to much abuse and misrepresentation." The convention declared that the use of the word "trust" should be not only discouraged, "but if possible prohibited in the organization of the so-called investment trust."

As a scheme of investment the investment trust is an old and a useful institution but in the opinion of these practical bankers some steps should be taken to differentiate for the benefit of the public between what in ambitious hands may be only a new venture in investing, and a long established institution, safeguarded by ample resources, by strict legal regulation and inspection and by the finest traditions in finance.

Casual Directorship Passing

THE age of casual directorship is passing. In a recent case a court held a director to have had knowledge of the condition of his bank although it was proved that ill health had prevented his attending a meeting of the board for a year.

Working together, the American Bankers Association, the National Association of Supervisors of State Banks and the Comptroller of the Currency are preparing a standard form of program for the meetings of the directors of banks. The suggested program is being drafted to meet the needs of the small banks but will be adapted to the use of larger institutions.

When the proposed form is sent to the 30,000 banks of the country the means will be provided for building the bulwark of responsibility, which is actual definite knowledge of banking principles.

Plan to Finance Shipbuilding

An Authorized Interview with

FRANK C. MUNSON

President, The Munson Steamship Line

American Shipping is Entering a New Era. Private Capital Expected to Supply a Fourth of the Funds for Shipbuilding. Investors Are to Become Shipminded. Effect of the New Jones-White Law Already a Stimulant. Future Bright for U. S.

AMERICAN investors in shipping securities may make possible the return of American ships to the seven seas, once dotted with the historic Yankee clippers. The national interest in the merchant marine, which will be aroused through the investment in maritime securities by individuals and banks, will give to shipping that vital necessity—the support of its country.

Such are the conclusions of Frank C. Munson, president of the Munson Steamship Line of New York, drawn from a forecast of the future of American shipping under the new Jones-White act passed by Congress at the last session.

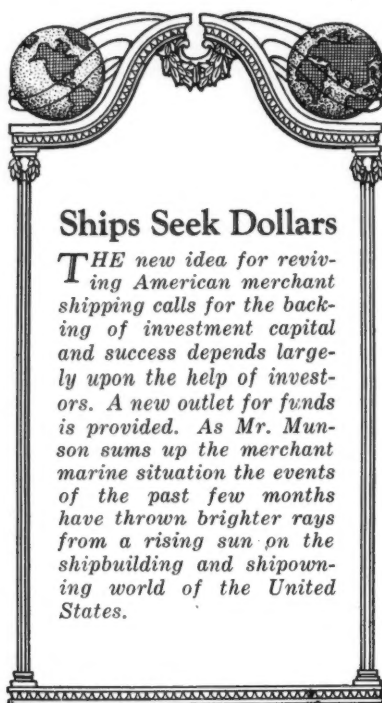
The Jones-White law was designed to give to the American merchant marine such aid as the government could extend to enable American ships to compete with foreign flags. The aim of the law is the establishment of a permanent merchant marine, privately owned, through the withdrawal of the government from shipping. The end sought is the rebirth of one of the oldest major industries of the United States.

The Hope of the Future

THE new law holds out promises of help to shipping in various ways. The construction loan fund of the Shipping Board has been liberalized and its limit increased to \$250,000,000 to encourage shipbuilding. The rate on these loans is to be equal to the lowest paid on government securities issued since the war. Ocean mail rates have been raised to aid the revenues of steamship lines. Additional naval reserve pay has been provided for merchant marine crews, and the scope of government marine insurance has been enlarged. Both of these features mean reduction in cost of operation, one of the chief hardships of competition with foreign lines.

Yet the chief hope for the future of shipping lies in American investment interest. Only part of the funds necessary to build new ships can be borrowed from the government, the rest has to be raised from the investing public. New ships must be built to meet modern requirements. A maritime investing country means a shipping nation.

As Mr. Munson sees the future of American shipping, the aids to be given by the Jones-White Act of 1928, together



Ships Seek Dollars

THE new idea for reviving American merchant shipping calls for the backing of investment capital and success depends largely upon the help of investors. A new outlet for funds is provided. As Mr. Munson sums up the merchant marine situation the events of the past few months have thrown brighter rays from a rising sun on the shipbuilding and shipowning world of the United States.

with the low cost of vessels to be sold by the Shipping Board, should enable American owners to operate ships and meet the low cost of operation now enjoyed by foreign vessels.

The construction loan fund of the Shipping Board, in his opinion, is not alone sufficient to enable American owners to build new ships. They would not be in a position to do so were it not for the mail contract features of the new law, which give them an incentive to build vessels of improved type, that is, faster and larger ships for the foreign trades. There will be a number of vessels built under the provisions of the Jones-White law. So far nine vessels are definitely projected, with a probability of eleven. Four of these steamers are destined to enter the Mediterranean and Black Sea trades, three of them to go into the round-the-world service of the Dollar Line, and the others are for services not yet disclosed.

Public to Invest

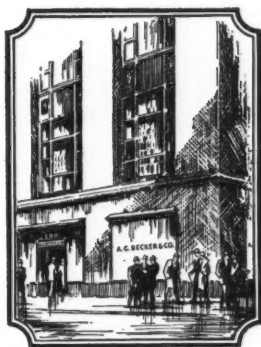
MR. MUNSON contends that the fact that these ships are now definitely planned for, and that three-quarters of the money will be borrowed from the construction loan fund of the Shipping Board, goes to prove that the law has already proved a stimulant to the building of new and improved types of ships. The balance of the money for the building of these ships—the 25 per cent not obtained from the construction loan fund—must come either from private resources of the steamship companies who are going to build them or by financing through bankers in the American market. The latter will probably be the case. That means that the American public is gradually going to become an investor in maritime securities, which Mr. Munson considers an excellent thing, as England's success as a maritime nation is particularly due to the fact that almost all classes of her population are and have been interested in shipping investments.

Most of the new financing by the shipping industry will be done, Mr. Munson thinks, by bankers handling the flotation of the securities as a part of their regular business. The 25 per cent of total building costs, which is not to be provided by the government, will be obtained, he believes, through the issuance of securities with maturities of from ten to twenty years. Other property of the steamship companies offering the securities will be used as collateral for the new issues.

A healthy reaction upon American shipbuilders is forecast for the new law. The best shipbuilders will feel the effect of it first and the others later. American ships are very well designed and a distinct stride in advance is made with the building of each new vessel. These new vessels tend to increase the confidence of the American public in American ships and shipowners, and this is reflected in its desire to travel and ship by American ships. This is of supreme importance in the upbuilding of the American merchant marine. In the last ten years only a few ships have been built by American shipyards, and these for the coastwise trade. Mr. Munson holds the opinion that the Jones-White law will serve as a beneficial

(Concluded on page 170)

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Supervision with Continuity and Ability to Act

By GURDEN EDWARDS

In Operation Less than a Year, Accomplishments of First Nebraska Regional Clearinghouse Association Demonstrate that Plan of Supervision is an Effective Preventive of Unsound Practices. Examiner Gains Additional Power, Greater Usefulness.

A PLAIN tale of things actually done by the First Nebraska Regional Clearinghouse Association in less than a year of existence will present clearly enough the values of the idea it represents.

A bank had failed in a town in one of the five counties composing the territory of the association and had been taken over by the State Guaranty Fund Commission. Its assets nominally amounted to \$124,000, but for the most part they were frozen, past due and some perhaps worthless. There was actually only about \$42,000 that was deemed good and collectible by the commission on demand.

Following the closing of this bank, which was largely due to the fact that there were too many banks in the little town of 1000 inhabitants in which it had operated, a movement was started by a group there for the organization of a new bank to take its place. The promoters of this project based their application to the State Banking Department for a new charter on the fact, first, that \$25,000 capital, but no surplus, had been subscribed, and second, that they proposed to purchase from the Guaranty Fund Commission the \$124,000 of assets representing the wreckage of the bank that had failed.

When the regional clearinghouse association had wind of this scheme, it at once got busy. It protested against the issuance of the new charter upon the grounds that there was clearly no justification for additional banking facilities in that town, and also that the assets of the failed bank which it was planned to take over from the guaranty commission were not such as could be lawfully taken into any bank.

Pressed Its Attack

THE association pressed its attack vigorously under the leadership of its president, Dan V. Stephens. It widened its campaign to embrace the broad principles of public interest at stake. It protested categorically against the further issuance of charters for new banks in Nebraska, where, it was held, too many banks already exist and are fully capable of taking care of the business of the people in their territories. It was declared that, in fact, banks had

been chartered in the state in recent years in excessive numbers, and in many places where they were plainly not needed, and that the natural result of that wholesale production of banks had been widespread failures throughout the state.

It was also pointed out that solvent banks had been assessed through the operation of the Guaranty Fund Commission plan to pay for the resultant losses, costing them in the neighborhood of \$15,000,000 to make good to the depositors in the failed banks. The ultimate cost of this disaster, it was pointed out, had really fallen upon part of the investing public, some of whom lost sums of money through the wiping out of the capital of the failed banks and others suffered through the fact that their banks were deprived of legitimate earnings to support the guaranty fund.

No Right to Unload

THE association also concentrated its attack on the proposal made by the promoters of the new bank to take over the assets of the failed bank. On this point it publicly went on record as challenging the legal right of the State Guaranty Fund Commission to sell frozen assets to either a new bank or an old one, asserting that if the assets were good it was the simple duty of the commission to collect on them and distribute the proceeds through a dividend to the depositors of the failed bank, while if they were not good, the protestants declared, the commission had no right to unload them on a new bank which the solvent banks of the state would be compelled to guaranty.

Summed up, the association pointedly told the state banking officials that the assets of the defunct bank should be liquidated as promptly as possible for their actual cash value, that the erstwhile depositors should receive a dividend from the proceeds immediately and that under no conditions should such dividend be made dependent on the chartering of a new bank to purchase the assets even though that procedure might serve to increase the amount of the dividend through getting an unjustified price for the assets—at the expense, in the last analysis, of the solvent banks of the state.

Was Bound to Fail

THE protest further declared that the proposed new bank could be considered as nothing less than a wildcat proposition since it involved committing a bank with only \$25,000 to enter into a contract to buy \$124,000 worth of assets when it did not have the money to pay for them since there were as yet no deposits to be used for that purpose. The whole plan was branded as merely another instance of an attempt to start an unsound banking enterprise which was bound to fail and create losses that would fall back upon the solvent banks in the state through the guaranty fund commission.

The lesson drawn was that all considerations of public policy were against the chartering of new banks without careful consideration of all the factors of sound management and public interest directly and indirectly involved.

Despite the vigor of the association's attack the State Guaranty Fund Commission accepted the bid of the new bank promoters for the assets of the failed bank on the condition that they succeed in obtaining the charter. The Clearinghouse Association, however, returned to the attack with a protest aimed at this action, calling upon the State Banking Department to refuse to grant the charter on such terms. Among other things, it was shown that the man whom it was proposed to put in as manager of the projected new bank was an employee of the old bank at the time it went wrong. It was also declared that each bank charter should be issued on its merits and not because it was coupled up with other considerations such as this proposition to help the guaranty fund commission dispose of failed bank assets on hand. The upshot of the whole affair was that the charter was not granted and the project fell to the ground.

This rather dramatic episode, in addition to forestalling an obviously improper banking enterprise specifically, also had broader beneficial results. It resulted in binding the support of the Nebraska Bankers Association and other organizations throughout the state to active advocacy of more stringent rules in respect to the issuance of bank charters and it also strengthened the moral

position of the State Banking Department in conforming its policies to accord with the sentiment the incident developed.

This was the first big victory of the Regional Clearinghouse Association, but it was soon to be joined by another one—another case of using successfully the power of organization and cooperation to strike at the roots of the problem of bank failures.

With Startling Suddenness

THIS second incident came with startling suddenness. Right in the midst of the campaign against the new bank charter and the sale of the failed bank's assets a member of the Regional Clearinghouse Association itself failed. The representatives of the association immediately went into conference with the board of directors of this bank and within three days their joint labors resulted in a plan for cleaning the bank of all of its worthless paper and much of its frozen assets and setting it going again almost as if nothing had happened. After the bank was reopened, instead of withdrawals of deposits, new accounts were added and deposits expanded, so thoroughly was confidence in it restored by this cooperative action. The guaranty fund commission was saved from having to take over a loss estimated at \$100,000 and the community was saved the disaster, and banking the disgrace, of another bank failure. In place of forced liquidation of the bank, members of the clearinghouse association provided sufficient credit to tide it over the difficulty and enable it to rehabilitate itself on a sound basis.

These are two specific instances of quick action and achievement by timely strokes in an emergency by the First Nebraska Regional Clearinghouse Association, but even more significant, perhaps, is its continuing machinery functioning under normal conditions at all times to prevent the development of unsound conditions leading to banking disasters. The machinery of this aspect of the association's work is comprised in the plan it has developed for cooperating with the public banking authorities in maintaining adequate supervision over the operations of individual banks.

Where public banking supervision has been ineffective it has been so mainly because of the hit-or-miss way in which it was conducted. It has been shown that the first prerequisite to preventing unsound banking conditions is to stop, as the Nebraska clearinghouse association succeeded in stopping in the episode described, the organization of unnecessary banking units, and that the second is to maintain proper control and supervision over those now in operation. The First Nebraska Regional Clearinghouse Association plan aims to bring about more consistent, systematic and efficient supervision through the cooperation of bankers themselves.

Under the examination systems generally in vogue now and for many years past in many jurisdictions there is only a disconnected type of supervision. This

is primarily caused by reason of the fact that the heads of public banking departments are political appointees and therefore every so often there is liable to be a change in administration and policies. A second cause for disconnected supervision is the fact that even during the life of an administration the same bank examiner seldom examines a bank twice, with the result that there is no one who gets a continuous vision of the trend of its affairs. Experience has shown generally that the causes of bank failures do not spring into full being over night but usually are the result of more or less gradual developments which could be stopped if taken in time.

Definite Remedy for Disconnected Supervision

THE plan of the First Nebraska Regional Clearinghouse Association presents a definite remedy for this evil of disconnected supervision. It has obtained from the State Banking Department the assignment of a resident examiner to devote all of his time exclusively to the banks within the clearinghouse district. The banks of the association have jointly furnished the examiner with an office in Fremont, the center of the district, and with clerical help. They are cooperating with him in developing coherent, continuous records and in establishing close contacts with all the banks in his territory on an intensive and permanent basis for the purpose of creating a solid local banking structure.

Here are a few things the examiner in this district has already been able to accomplish under the conditions thus presented:

Under this plan the examiner functions as a friendly critic and counsellor to all the banks of his district. He has become recognized as a constructive critic inspired by a great desire and ambition to keep all banks in a solvent condition rather than a hostile critic without responsibility for his criticisms.

Following this practice he has been able to convince four different boards of directors that they should make an adequate assessment to clean their banks of frozen and worthless paper and put them in a position beyond criticism. These assessments, which have at least equalled, or in fact on occasion doubled, the legal liability, have already been paid in and these four banks been put in an excellent condition wholly as a result of friendly advice of the examiner.

In addition to these four banks he has convinced the boards in five other banks that assessments should be made for the purpose of cleaning their banks of frozen paper and worthless assets and they are now in the process of paying such assessments.

Further evidence of his ability to accomplish results under this program is shown in the cases of four small towns where there are eight banks operating—two in a town—without sufficient business to justify their existence. He has opened negotiations for the consolidation

of these eight banks into four, thus greatly strengthening the banking position in each community, and at the same time small assessments are to be paid in for the purpose of putting the banks in good shape.

In another case a bank failed in the district, where one of the officers of the bank refused to take any interest in it or make any response to the rejuvenating program, and the examiner was forced to close the bank. This so effectively shocked the community and the particular director in question, that those directly interested raised \$40,000 for the purpose of cleaning the bank and reopening it. This was done in so efficient a manner that public confidence was restored and the deposits in the bank increased immediately after it was reopened.

In recounting the above examples of the work of the examiner, a banker, who had formerly been a national examiner, stated that it was not unusual for an examiner, who was particularly aggressive in his work and who attempted to force some important and influential bank to clean house, to be removed to some other territory so as to get him out of the way. Such incidents reflect the influence at times of politics in the administration of bank supervision. This same condition, he said, existed among state examiners in some jurisdictions and he gave it as his opinion that the examiner of this regional clearinghouse association would hardly have dared carry out the program he has put through had he not been supported by the association, for the reason that there would have been no organization to back up consistently the program outlined and an influential individual might exert influence enough to upset it.

This organized power of banking opinion as an aid to examiners in their work is something few of them have had to count upon to enable them to do their duty fearlessly and effectively. Without such support many dare not go as far as they feel they should, perforce avoiding trouble by letting a good many things slide.

Examiner's Viewpoint Changed

SPEAKING of the thorough housecleaning that is going on in the district of the First Nebraska Regional Clearinghouse Association President Stephens, president of the Fremont State Bank and the moving spirit in organizing the association, says:

"If nothing happens to us to interfere with our progress, before another year goes by, there will not be a bank left in our district which has unsatisfactory conditions to conceal, and the bankers of the district are proud of the record they are making and proud of their examiner."

"The whole viewpoint of the examiner under the resident examiner system such as we have set up can be entirely changed. The individualized responsibility

(Continued on page 168)

Building a Secondary Reserve "From the Ground Up"

How Local Conditions Govern

Government

Municipal

Farm Loan

BONDS TO FIT
THE INVESTOR

Public Utility

Real Estate

Industrial

A HOUSE on a hill and a house in a valley would properly be built along quite different lines—each a shelter, but each adapted to the surrounding topography and the kind of soil. The need for a preliminary survey of local conditions and adaptation to them is just as needful in a well constructed bank bond account.

A bank in a middle western grain-growing community, for instance, in constructing a secondary reserve, would need bonds quite different from those which should be selected by a bank in an eastern manufacturing community. Both, of course, must have the fundamentals of safety and income. But in the type of security each bank has a problem peculiar to itself.

In a strictly agricultural region, the peak for loans and withdrawals might fall in the late spring and summer months. It would likely show a concentration of deposits in the fall, after the harvest. These facts would have a bearing in choosing bonds of proper maturities. Moreover, the agricultural character of the community would indicate a need for diversification in industrial bonds.

On the other hand, a bank in a manufacturing center would likely find better diversification in utilities, farm loan bonds, municipals, or bonds of industries quite different from those carried on locally.

The investment policy of a bank calls for a broad view of the entire reserve structure, primary and secondary. Each bank presents a different combination of the determining factors. For years we have been working with banks of all sizes and in diverse communities. If we can be of aid in arriving at an investment policy adapted to your needs, we shall be very glad to serve you.

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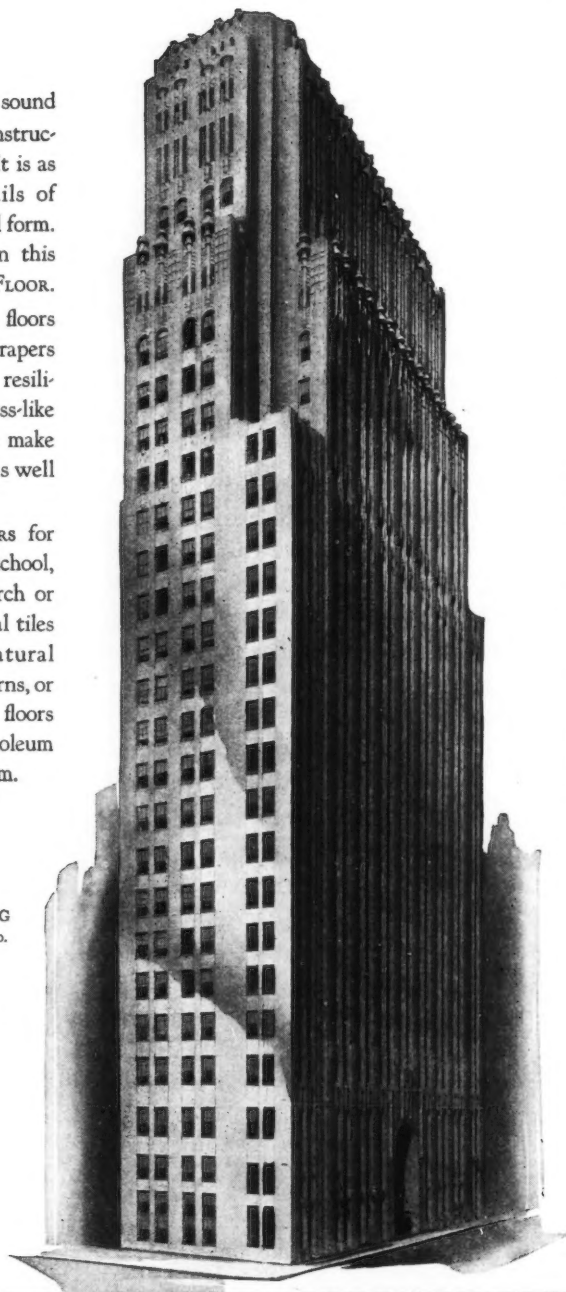
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Profits in the Building Materials Industry

By D. RICHARD YOUNG

Building is America's Greatest Industry But Excess Capacity Keeps Profits Low. Forty-eight Per Cent of Quarries Operate at a Loss. This Age of Concrete and Problems in Cement Manufacture. Large Construction in 1928 Improves the Outlook.

MOST people, in discussing the major industries, would probably rank automobile manufacturing as the most important. Industries, however, in the broadest sense of the term, are led by building construction, on which more money is spent annually than on automobiles, food or clothing.

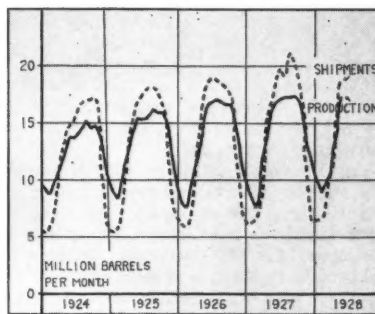
Output of numerous industries eventually goes into fixed assets. Every ten years the Bureau of the Census makes an estimate of national wealth, the latest of which shows the valuation at the close of 1922. Taxable real property and improvements are carried at \$155,909,000,000; tax-exempt real property and improvements at \$20,506,000,000; agriculture and mining, \$14,608,000,000; manufacturing, \$44,206,000,000; railroads, \$19,951,000,000; public utilities, \$15,414,000,000; and personal and miscellaneous property, \$50,210,000,000.

Grand total wealth of the United States amounted to \$320,804,000,000, which, compared with the previous tabulation at the end of 1912 of \$186,300,000,000, represented an increase of 7.24 per cent annually. Increase of prices, however, accounted for a large part of the gain, and if corrected by the Bureau of Labor Index, which stood 56 per cent higher, the increase would have been only 1.06 per cent annually. This means that, contrary to popular opinion, increase in American wealth during the war proceeded at a much lower rate than normal.

Last year the value of building contracts awarded in thirty-six eastern states amounted to \$6,084,000,000, as tabulated by the F. W. Dodge Corporation.

During the current year, from Jan. 1 to May 31, the similar figures on building contracts amounted to \$2,689,000,000, compared with \$2,462,000,000 in the corresponding period last year, being a gain of 9 per cent. Such a showing is most encouraging, considering the fears of a slump in building that have been so often heard.

Of the numerous materials which go into building construction, steel and lumber are distinct industries by themselves, the first of which has already been taken up in this Profits Series and the second which will be discussed later.



Seasonal fluctuations in production and shipments of cement

All others will be grouped together in this review, to include cement, lime, brick, tile, terra cotta, gypsum, stone, marble, gravel, sand, concrete products, roofing and paving materials.

As a rule, stone, clay and glass products are usually classified together, and for convenience the manufacture of plate and window glass, also table glassware, bottles, etc., is included herein, even though only a part of its product is building material.

Earnings Declined in 1927

FOLLOWING is a tabulation of earnings for the last two years of the leading companies making up the industry as broadly classified above. Figures are taken from annual reports issued to stockholders and in the newspapers, and show net profits available for dividends or to carry to surplus, i. e., after all expenses, reserves for depreciation (also depletion in the case of quarrying), interest charges and provision for taxes have been deducted. Fiscal years end Dec. 31 unless otherwise indicated.

Cement, Brick, Tile, Glass, etc.

Net Profits—000s Omitted

	1926	1927
Alpha Portland Cement Co....	2,603	2,359
American Aggregates Corp....		*857
American Encaustic Tiling Co.	938	684
American Window Glass Co. (1)	421	D381
American Window Glass Machine Co. (1).....	1,237	817
Arundel Corporation	1,558	1,954
Bessemer Limestone & Cement Co.	*463	325
Bloomington Limestone Co....		*629
Carthage Marble Corp.....	*400	....

	1926	1927
Certain-teed Products Corp....	2,335	2,340
Columbia Sand & Gravel Co..	*265	....
Continental Clay Products Co.	*337	....
Dickey Clay Mfg. Co., W. S....	821	....
Dolese & Shepard Co.....	264	317
Flintkote Co.	715	....
General Refractories Co.....	1,242	1,426
Giant Portland Cement Co....	494	182
Harblson-Walker Refractories Co.	3,999	4,012
Hazel-Atlas Glass Co.....	2,324	2,365
Hydraulic-Press Brick Co....	377	....
Ideal Cement Co.....	....	2,244
Illinois Brick Co.....	840	770
Indiana Limestone Co. (2)...	940	498
International Cement Corp....	4,355	4,554
Iron City Sand & Gravel Co..	*339	*300
Johns-Manville Corp.....	3,778	4,108
Kentucky Consolidated Stone Co. (3)	*221	*221
Keystone Sand & Supply Co. (3)	236	*236
Lawrence Portland Cement Co.	*983	....
Lehigh Portland Cement Co. (4)	5,244	4,119
Libbey-Owens Sheet Glass Co. (5)	3,415	2,706
National Fire Proofing Co....	520	179
National Tile Co.....	550	....
New York Trap Rock Corp....	1,290	1,508
North American Cement Corp.	*1,083	228
Ohio River Sand & Gravel Co.	*162	....
Owens Bottle Co.....	6,929	4,606
Pacific Clay Products (6)....	*358	....
Pennsylvania-Dixie Cement Corp.	3,819	1,967
Pennsylvania Glass Sand Corp.	*1,080	....
Pittsburgh Plate Glass Co....	10,017	6,400
Root Glass Co. (8)	*651	....
Rossman Corp.	*567	....
Sayre & Fisher Brick Co. (5) ..	*671	....
Shawnee Stone Co.....	....	*242
Southern Asbestos Co. (7)....	250	186
Standard Plate Glass Co....	80	D518
Thatcher Mfg. Co.....	884	546
Trinity Portland Cement Co..	506	....
Turner Glass Co.....	....	*218
United States Asbestos Co....	183	335
United States Glass Co.....	*92	D148
United States Gypsum Co....	8,376	7,539
United States Sheet & Window Glass Co.	560	....
Virginia Alberene Corp.....	325	177
Warner (Charles) Co.....	372	819
Warren Brothers Co.....	1,062	1,484

(1) Years ended Aug. 31; (2) Years ended Nov. 30; 1926 includes 6 months; (3) Annual average; (4) Years ended Nov. 30; (5) Years ended Sept. 30; (6) Nine months to Sept. 30; (7) Years ended June 30; (8) Years ended July 31; (*) Before certain charges; (D) Deficit.

Of the leading manufacturers shown in this tabulation, comparable figures for both years are available in the case of thirty-one companies. These had aggregate earnings in 1927 of \$52,149,000, comparing with \$65,365,000 in 1926, representing a decrease of 20.3 per cent. Eleven of the thirty-one had higher earnings in 1927 than in 1926, while twenty were lower.

The principal reasons for this decrease in profits are that the building materials industry is, in general, somewhat over-developed relative to peak construction demand, and that the moderate re-

cession in building activity the second half of 1927 intensified competition, lowered prices in numerous lines, and curtailed profit margins.

This Concrete Age in Which We Live

PRODUCTION of cement has enjoyed an excellent growth in recent years as a result of the continued trend toward steel-and-concrete construction and the expansion in building after the war. Our modern city might be spoken of as a concrete city.

Use of cement did not originate in our day but twenty centuries ago. There still stands in southern France a great, curious bridge, erected by the Romans under Emperor Augustus, that carries a water-trough lined with cement and perfectly preserved to this day. It is called the Pont du Gard and spans the deep valley of the Gard not far from the old city of Nimes. Referred to as one of the wonders of the world, this ancient aqueduct furnishes a classic testimonial of the durability of cement, particularly when in contact with water, which even adds to the hardness of the surface by depositing lime accretions.

Full development of this Concrete Age, however, has come within the lifetime of many men living today, and is principally the result of improvements in manufacturing. Processes are simple and involve no secret formulae. Quarries that are resounding with diamond drills, dynamite blasting and steam shovels give up their tons of hard limestone and clay rock, which is transported on hopper cars to the mill nearby. Here it is dumped into the first of a series of rock crushers, which reduce the large stones to pieces that will pass through a four-inch ring, then a smaller ring, then wire sieves.

The final sieve, according to standard government specifications, is of bronze mesh with 200 threads per inch in each direction, or 40,000 openings to the square inch. Silk handkerchiefs have about 100 threads to the inch, very fine dress goods 200. Neither will hold water. The cement screen will. Seventy-eight per cent of finished Portland cement must be able to pass through this fine screen.

Constant crushing of rocks naturally involves extreme wear and tear on machinery, and the modern cement mill is partially closed down for repairs and replacements a great deal of the time.

After being reduced to powder the rock dust is poured into the upper end of a great kiln in the form of a cylinder, 100 to 250 ft. long and 10 to 12 ft. in diameter, slightly tilted and revolving slowly. Into the lower end is blown a stream of pulverized coal. The intense heat of 2500 to 3000 deg. Fahr. instantly ignites the coal which changes the chemical composition of the limestone and clay rock into new compounds of lime with silica and alumina.

Although the kilns revolve continuously the time required for any given quantity of powdered rock to pass

through is about three hours. Coming out as white-hot clinker it is mechanically loaded and hauled to great heaps for cooling. Thereafter it must once more be pulverized and tested, and becomes the cement of commerce to be packed into bags or barrels and shipped to the building contractor.

Seasonal Fluctuations in Cement Production

AN accompanying chart shows the monthly production, shipments and stocks of Portland cement. The system of these monthly statistics of various industries, built up in recent years by the Department of Commerce, furnishes an invaluable picture of conditions. Each manufacturer is enabled thereby to adjust his production to conform with changing demand. Continual readjustments going on in all industries tend to offset each other and we have as a sum-total the "stabilized prosperity," which is often referred to as a principle of our "new economics."

In no other industry is the annual fluctuation in production and shipments so wide and yet so regular as in cement manufacture. During the winter months demand on the part of builders is naturally lightest, and production of the mills is also curtailed, in order to make repairs and rearrangements. Spring-time brings an expansion in demand, which eventually exceeds current production and the surplus inventories accumulated during the winter are drawn down. October and November witness a downward swing to complete the cycle.

Even greater stability of production might be secured, by running at average output throughout the year and building up stocks to fluctuate inversely with demand but this would not be economical, due to the heavy weight of cement to be stored relative to its value. Absolute stability is the desideratum for efficiency in industry generally, and might work successfully with a watch manufacturer but not a cement mill.

Shipments of Portland cement in recent years have grown from a 1921 total of 95,040,000 barrels (376 pounds); 1922 of 116,520,000 barrels; 1923 of 128,880,000; 1924 of 145,800,000; 1925 of 156,720,000; 1926 of 161,760,000 and 1927 of 170,880,000.

Shipments for the first five months of 1928 show an increase of 1 per cent over the corresponding period in 1927.

Quarries Not All Money Makers

BANKERS have never held a very high opinion of stone quarries as credit risks, nor of the business of dealing in stone, marble, etc.

Interesting figures on the earnings of American corporations engaged in quarrying stone, clay, sand, gravel, etc., are contained in the reports of the Treasury Department on Statistics of Income, the following tabulation being made from the last ten annual reports.

Quarrying \$000 Omitted

Year	Reporting Income		Reporting Deficits	
	Number	Net Profits After Taxes	Number	Deficits
1916	256	\$4,518	300	\$1,761
1917	•	•	•	•
1918	566	5,594	518	2,886
1919	567	8,515	513	3,619
1920	754	17,849	536	3,957
1921	713	10,869	768	6,349
1922	782	20,183	768	6,418
1923	931	26,969	728	6,759
1924	1,008	25,601	918	8,379
1925	1,006	35,882	938	6,766
Total	6,583	\$155,979	5,987	\$46,893

*Not available.

Of the 1397 American quarries, on an average over the past ten years, 52 out of every 100 operated at a profit and 48 at a loss!

During the period the aggregate profits after taxes of the successful concerns amounted to \$155,979,382. Against this the deficits of the unprofitable producers amounted to \$46,892,813. Thus for every \$1,000,000 made in quarrying, there was approximately \$300,000 lost.

Hardly an enviable record for an old-established and basic industry, noted for its relative stability, and sometimes referred to as growing rich through exploiting natural resources and boosting building costs!

In the wave of public financing in the last two or three years a considerable number of quarrying concerns have offered their bonds and stocks to investors. Careful scrutiny of the issues should be made by any prospective purchaser, as well as by the banker, otherwise he is liable to discover later that he has bought or loaned into a reorganization.

Stone, Clay and Glass Products

A SOMEWHAT better showing is made in the group which includes: Stone—cement and marble; Clay—brick and tile, pottery, terra cotta, fire clay, etc.; Glass—and glass products.

Below is a similar tabulation which has been prepared covering all American corporations in this classification, based on sworn income tax returns.

Stone, Clay and Glass Products \$000 Omitted

Year	Reporting Income		Reporting Deficits	
	Number	Net Profits After Taxes	Number	Deficits
1916	2,695	\$86,623	1,510	\$7,919
1917	•	•	•	•
1918	1,856	50,991	966	7,738
1919	2,338	82,658	882	11,159
1920	2,661	113,814	1,001	8,287
1921	1,998	57,725	1,683	26,260
1922	2,459	110,754	1,431	14,374
1923	2,880	165,731	1,321	14,374
1924	2,735	143,251	1,621	17,944
1925	2,753	158,694	1,701	17,846
Total	22,375	\$970,240	12,116	\$128,112

*Not available.

Here is a much greater group, numbering about 3872 corporations, in which over the nine years 65 out of every 100 operated at a profit and 35 at a loss.

Combined profits after taxes during
(Continued on page 167)



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Chain Banking Looms Large

By HENRY E. SARGENT

Chain Banking is Spreading so Rapidly that It Must be Considered as a National Problem Rather than a Trend. Branch Banking Looms as the Alternative which Means the Immediate Revival of an Old Controversy. Banking is Following Big Business.

BANKING in this country is in the midst of a revolution. Chain banking, in one form or another, is developing so rapidly that competent authorities predict that within a year it will become recognized as an American method of bank operation. Then a prompt change from chain banking to branch banking is looked for because of the greater economy of the latter method.

This transition from the long established system of independent banking through the expedient of chain banking to extended branch banking seems almost unescapable. Chain banking is going ahead so fast, and with further developments in the making, that the country as a whole may soon wake up to the accepted fact. The definite trend in that direction is obvious.

Too Late for Laws

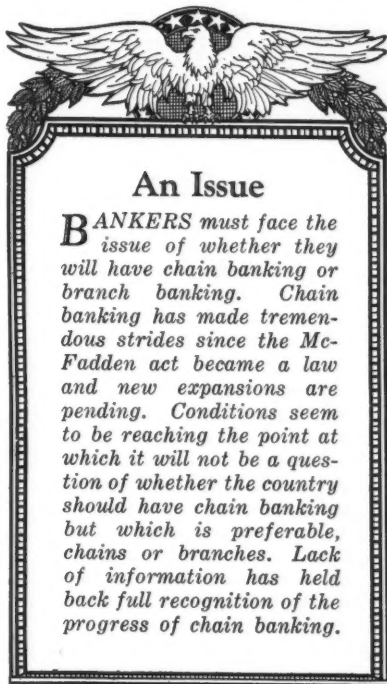
THERE is opposition to chain banking. At least there is considerable agitation over the question in banking circles. But opposition can only crystallize in action by Congress and the various state legislatures. Congress does not meet until next winter. Neither do most of the state assemblies. Hence by the time legislative bodies get around to it chain banking may have become a national situation rather than a trend.

Accurate information is needed to disclose the number of chain banks in the United States. At present there are only estimates of the number of banks which may be classed as part of groups owned by individuals, corporations or investment trusts. The most authoritative recent survey of the subject is "The Trend of Chain Banking," by H. H. Preston, dean of the School of Business Administration, Seattle, Wash., published in the April issue of the *AMERICAN BANKERS ASSOCIATION JOURNAL*.

Congress may remedy the defect in the statistics of chain banking. Perhaps the Federal Reserve Board in its next annual report will come forward with official figures. But the board will not make its report for the calendar year 1928 until the spring of 1929. By next spring, if the signs of further expansion of chain banking are reliable, there will be another factor to be considered.

Chain Bank Competition

CHAIN banking means more competition for the national banks. There can be no outright chain banking in the



national system. Each national bank must stand alone before the Comptroller of the Currency. National banks may have intra-city branches in states that permit branch banking. Yet with chain banking, in various forms, steadily gaining ground, there appears the competition between national and non-national banks that the McFadden Banking Act sought to equalize.

Less than 200 national bank branches have been authorized in the whole United States since the McFadden act became effective nearly a year and a half ago. These branches are restricted to cities of the parent institution. Chain banking is only restricted by the amount of investment capital available. Some of the bank chains are potential branches only awaiting the removal of legal restrictions to become actual branches. Others are virtually branches although complying with all the requirements of state laws.

In some quarters, it has been customary during the past year to regard the McFadden act as untried. Many of its features are working splendidly. Others have yet to pass the test of time. Never-

theless the growing importance of the chain bank question would seem to challenge the adequacy of the new national banking act in one vital particular. The increasing interest in chain banking, both friendly and unfriendly, at least proves that the McFadden act has not settled for all time the warm controversy over branch banking.

Congress the Guide

STATE banks which are members of the Federal Reserve System are subject to the same restrictions on branch banking as are the national banks. The branch bank problem confronts the state member banks as well as the national banks. Treatment of the chain bank question by Congress will furnish the basis for action by state legislatures.

So far, less restricted branch banking appears to be the only alternative to chain banking. Legislation against chain banking offers serious difficulties. There are too many kinds of chain banking on the one hand and on the other there is the Federal invasion of banking to be considered. Regulatory legislation presents difficulties of administration. The complexities of chain banking, as pointed out by Mr. Preston in the article referred to in the foregoing, are intricate. The line of demarcation between sound and unsound chain banking is vague.

The march of chain banking can not be halted. It can be turned in a different direction—toward branch banking. Branch banking appeals to the chains. It permits of much more economical operations, less overhead and simpler forms of administration. There will be chain bank interests who will advocate more liberal branch banking legislation for these reasons. There will be national banks that will demand changes in the McFadden act on the same ground that they insisted upon the enactment of that law—that is, growing competition.

Banks Follow Business

THE old branch banking controversy may be revived therefore with the element of chain banking taking a new prominence. But times have changed and there has come a clearer recognition of those changes than was evident two years ago. The business trend is toward consolidation and banking is following the lead of business. Bigger and stronger units are required to finance the larger units in commerce, trade and

(Continued on page 166)

Farm Bank System Rates May Be Lower

By GEORGE E. ANDERSON

The System is Undergoing a Great Change. Losses Are Being Written Off. New Business Undertaken is Evidently of a More Desirable Class Than Some Loans Made in Years Gone By. Chief Problem of the Banks Is the Liquidation of Frozen Assets.

THE reorganization of the Federal Farm Loan Board effected by changes in the personnel of that organization and the practical reorganization of the farm bank system by the changes in policies inaugurated by the reorganized Board as a result of the insistence of the Treasury Department have already left their impress upon the institutions constituting the system.

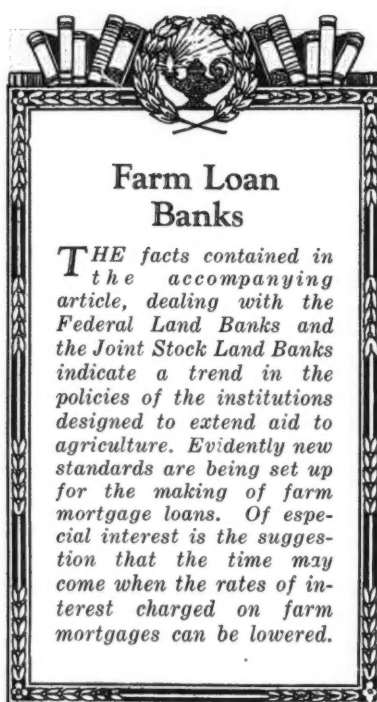
The last annual report of the Board, covering the year 1927, and the latest statement of condition of the various banks in the dual system, covering the first five months of the current year, indicate highly important changes in the conduct of the farm loan banking business.

Closer Examinations

THERE have been much more frequent and much closer examinations of the various banks, a thorough overhauling of the appraisal system, and the Board has put a stop to those "expedients and devices which conceal unsatisfactory conditions or tend to mislead" and is insisting that the published statements of the banks show the facts as they are.

Withal the Board reports that "for the most part the banks of the system are in good condition with relatively few problems of importance; a comparatively small number of them, however, are confronted with situations which require vigorous attention but their solution will be facilitated materially by the improvements in management and methods which have been made and the active cooperation of the Farm Loan Board." The Board further says:

"The farm loan system has demonstrated its soundness and its usefulness. The fact that unsatisfactory conditions developed in some of the banks and that others are faced with difficult problems does not alter this fundamental truth. While general or local depression in agricultural conditions or farm values may create temporary problems for a land bank they should not create insuperable or serious troubles for a properly managed bank. . . . The institutions which have been efficiently managed with proper regard for the law and have made loans within the limits prescribed and in pursuance of the best dictates of human judgment may have some foreclosures and delinquencies but they have no problems that are seriously disturbing. On the other hand banks that have not entertained proper respect for the law and sound policies and practices or have made loans from the point



of view of volume without proper regard for quality in order to swell the amount of apparent earnings have suffered and three of them have fallen into receivership. This distinction is clearly demonstrated in the case of properly managed banks operating alongside of improperly managed banks in the same territory where agricultural conditions were unfavorable. While both were susceptible to the same economic influences one is found relatively prosperous and successful while the other is found struggling with difficulties."

Changed Personnel

IN keeping with this review the Board has translated some of its good intentions into practical action by insisting that there be a complete change in the executive personnel of two of the Federal Land Banks and in a third the executive staff has been materially strengthened while the management and board of three Joint Stock Land Banks have also been reorganized.

The Board also has made material progress in its policy of improving the accounting methods of the banks in the

system, working toward a uniform method of accounting which is essential to the prompt and efficient examination of the banks as well as for the fair and accurate comparison of their business returns.

It is evident from a comparison of the report for 1927 with those of the preceding years and especially the report for 1926 that the entire farm loan bank system sponsored by the government is undergoing a great change in which the liquidation of a large amount of business done by these banks during the years immediately after the war and during the deflation period is being rapidly effected.

Losses are being written off and doubtful assets are being pared down while new business undertaken is evidently of a distinctly better quality than much of the business taken in the past. The chief feature of the last year's business and business of the first five months of the current year has been the decrease in the amount of loans placed by the Joint Stock Land Banks.

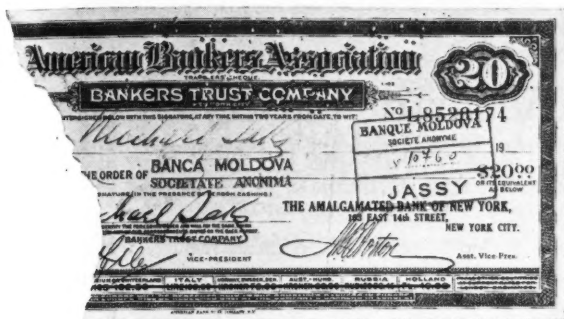
Foreclosures Increasing

THE chief problem of the banks, like that of many other banks doing business in territory affected by the general depression in agriculture or in lines of business directly affected by farm conditions, has been the matter of liquidating "frozen assets," this problem in the case of the farm loan banks being greatly complicated by constantly increasing foreclosures with the consequent continued drag on the market for farm lands caused by the increasing number of farms offered for sale. The Board places much of the responsibility for the state of the farm market to the large number of failures of "small country banks."

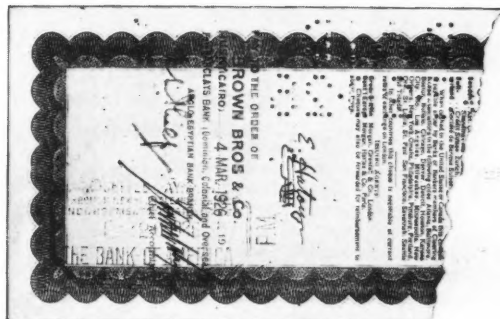
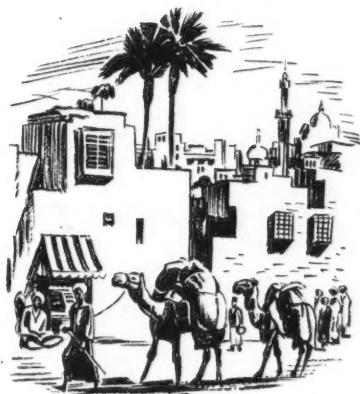
In spite of the ups and downs of organization and executive troubles the Federal Farm Loan Banks made considerable progress during 1927. At the end of December, 1927, which was the close of the first decade of the operation of the Federal Farm Loan Banks, loans to a total of \$1,441,058,514, had been placed with 456,036 borrowers of which \$140,384,200 to 39,268 borrowers had been placed in 1927. The net amount

(Continued on page 163)

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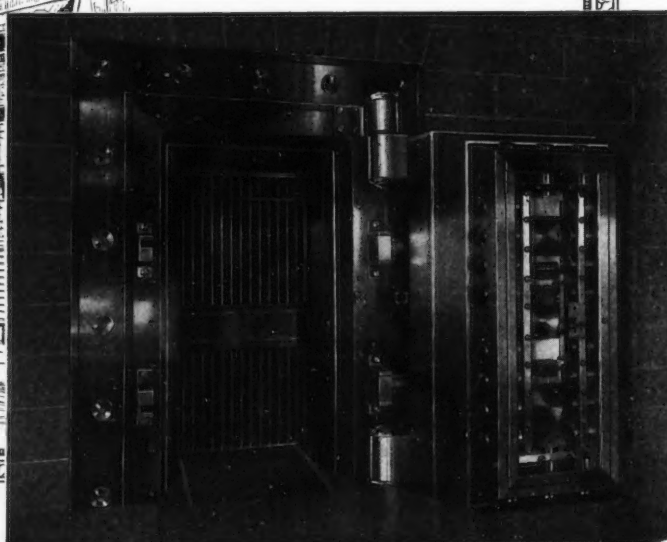
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Canada's Share in the "Gift from Heaven"

By C. M. SHORT

Canadian Bank of Commerce of Toronto

Wheat Made Canada and Canada Makes the greatest Percentage of the World's Wheat. The Story of Canadian Wheat Contrasts the Romance of Pioneer Days with Modern Methods of Efficiency Which Gives the Dominion Its Present Important Position.

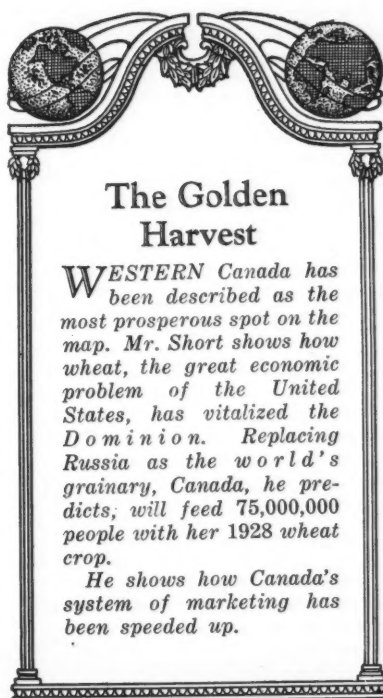
AGRICULTURE is the economic heart of the world, the chief support of and the most powerful influence on mankind, and wheat stands as the capital item in a lengthy and varied list of farm products. The ancients regarded wheat as "the gift from heaven" and for centuries past Christian people have prayed daily for bread, for where there is plenty health and happiness prevail, and where there is a shortage famine, pestilence and death are apt to be in attendance.

Planting and reaping of wheat is carried on in more than seventy countries, the annual harvest amounting to over 4,000,000,000 bushels, not taking into account the outturn in China which, without well-organized statistical agencies, does not know just how much she produces. The world yield of wheat exceeds that of any other grain, except possibly rice, for which complete and trustworthy statistics are not available.

Practically all countries trade in wheat, either by export or import, and for this reason the wheat market is the broadest and most sensitive of the many in which nations trade, and the developments that take place almost hourly in the large producing countries are, therefore, of international concern. While more wheat is grown in Europe than on any other continent (its normal production is nearly half of that of the globe) it provides the largest market, taking a yearly average of 725,000,000 bushels from other parts of the world. There are a number of European nations that usually produce more than their requirements, notably Russia and certain Danubian countries, and in others, France, Germany and Italy, the annual yields are very large, though the home supply needs to be supplemented, while Great Britain, with only 6½ per cent of her population engaged in agriculture, purchases a third or more of the wheat that is offered for export.

Wheat and the War

PRIOR to the war Russia was the largest exporter, followed, in the order named, by the United States, the Danubian countries, Canada, Argentina, Australia and India. The effects of the great conflict which was in progress



from 1914 to 1918, and industrial and agricultural development in other regions, changed the sources of supply for those nations that have found it necessary to draw part of their requirements from exportable surpluses elsewhere.

When the war ended Central Europe and Russia were impoverished, transportation systems, never comparable in extent or efficiency with those in more advanced countries, were practically a mass of wreckage, while altered forms of government caused a division among the peasantry of the large estates which formerly furnished the greater part of the wheat for export. Russia was seriously affected and in recent years its government, finally realizing that socialism and isolation were anomalous to a healthy economic life, and finding itself without credit or an acceptable form of currency, has made determined efforts to regain for the country the position it once occupied in the world wheat mar-

ket, or at least to secure enough wheat for export to permit it partly to rehabilitate the economic structure which, in the guise of democracy, it destroyed.

Russia Now Unimportant

WHEN the peasants had brought production to a level not far below that of pre-war days the government commandeered part of the crop for export, but found the venture unprofitable and the peasants so incensed that they curtailed production for a year or two. The next move was to form a government procurement bureau which has attempted to buy large quantities of wheat from the peasants, the greatest success being in the 1926-27 season, when about 40,000,000 bushels from a crop of pre-war yield were disposed of in the world market. But the Russian wheat grower, with production and disposal largely under his own control, has become a consumer of white bread and is unwilling to surrender his surplus for Russian money. He demands manufactured goods in exchange and the government is not in such financial position to furnish these in large quantities. Accordingly, Russia is now a comparatively unimportant factor and will remain so for some years, unless, as seems improbable, there is a speedy economic recovery of the country.

The United States has reduced its acreage since 1919 and, with a rapidly increasing population, has had to use more of its wheat, though in a favorable year for production its exportable surplus is about 200,000,000 bushels. India, which never had a large surplus for export, now has even less as the home consumption has gradually increased. Fortunately for the world, and particularly for Europe, production has so increased in Argentina, Australia and Canada as to more than offset the loss in exportable surpluses in other countries, and now the requirements of importing countries are supplied approximately in the following proportions: Canada, 40 per cent; United States, 23 per cent; Argentina, 20 per cent and Australia, 12 per cent.

Canada has risen to her present eminent position in the world wheat-growing industry through good fortune



in the possession of a vast and fertile agricultural estate, a great sweep of land settlement and by the success gained in extensive and intensive studies in all the forces that make up large scale production and marketing, these involving soil-testing, plant-breeding, scientific cultivating, financing, grading and transporting.

The great grain-growing area of Canada is part of the interior plain of North America which reaches northward from the Gulf of Mexico to the Arctic Ocean. That part lying within Canadian boundaries and adaptable to farming stretches nearly 800 miles westward, from about 400 miles west of Lake Superior to the Rocky Mountains, and is fenced off in the north by tundra and forest. This area, comprising sections of the provinces of Manitoba, Saskatchewan and Alberta, is estimated to contain 170,000,000 acres of arable land, although, of course, not all of this is fertile and only about 25 per cent is under cultivation. Generally speaking, the land in this vast area is of almost virginal fertility and, while the soil varies, the best of it is very rich in the important elements of plant food, nitrogen, potash and phosphoric acid. The opening of the prairies, as they are commonly known, is a record of romantic adventure and outstanding achievement in the face of pioneering in the strictest sense of the word.

The Hudson's Bay Company, or to give the legal title, "The Governor and Company of Adventurers of England Trading into the Hudson's Bay," secured possession of this territory under a charter given by Charles II of England in 1670 and held it as a fur-hunting land until 1867, when it was purchased by the newly-formed Dominion Government for £300,000 sterling, or about \$1,500,000. (The 1927 wheat crop from this area was valued at \$500,000,000.) Wheat was grown there in a very limited way as early as 1815 by settlers on a small tract, set aside by the Hudson's Bay Company for colonization. It was not, however, until 1870, when the first "purifier" for separating bran and middlings from flour was imported from the United States that wheat-growing was important.

The First Dominion Cerealists

LESS than 50 years ago the cultivated wheat area was 480,000 acres; in 1900 it was not more than 5,000,000 acres, while in 1928 it is estimated at 23,500,000 acres. This great expansion

has been made possible not only by partial settlement of an agricultural empire of vast extent and amazing fertility, but also by successful experiments in the development of new varieties of wheat most suitable for the soil and climatic conditions of the prairies, and always with a view to producing a cereal of the highest grade. The first of importance was Red Fife, which was developed by a farmer in the province of Ontario, which, while a strong variety, had some serious defects, ripening late and so exposing the plant to frosts, and being very susceptible to smut.

These faults were remedied by the breeding of Marquis wheat by the first Dominion Cerealists, Dr. William Saunders, whose work in this respect is claimed to be the most valuable to wheat-growers, not only in Canada, but elsewhere, that has ever been undertaken. It is the most generally grown wheat on the Canadian prairies, and its seed is also used by about two-thirds of the farmers in the American spring wheat areas. Further experiments have brought about several other varieties, notably Garnet and Reward which, while slightly inferior to Marquis in yield or in color of the flour produced, mature earlier and are, therefore, regarded as valuable in that owing to their introduction the border of the wheat belt has been rolled northward and a new territory opened which a short time ago seemed to be beyond the horizon of commercial agriculture. Recently the rust menace has become so serious that plant pathologists are attempting, with good prospects of success, to develop a rust-resisting wheat of high bread-making quality. Attention is also being directed by governmental and private agencies to overcoming slight dissatisfaction expressed during the last few years as to the quality of some Canadian wheat, for which the use of untested seed, unfavorable weather in the harvesting periods and the mixture of inferior grades from other countries by foreign export agents are responsible.

The combination of advantages in soil, climate and seed have made Canada the most important single factor in the world wheat market, for not only is the size of the crop the major influence on prices, but its grade determines the quality of bread that the world will have at its disposal. The hard spring wheat produced in Western Canada, practically the only kind grown there, sets the standard for the world and produces the best flour from which the greatest quantity of bread per barrel

can be made. In contrast to the usual order of things where strict attention is given to quality, the average yield of wheat per acre in Western Canada is high, 19.8 bushels over a 23-year period, as compared with 14.1 bushels in the United States, 11.3 bushels in India, 10.6 bushels in Argentina and 10.4 bushels in Australia. The yield in Russia is reported to have been about 9 bushels per acre over a period of 15 years.

Marvels of Marketing

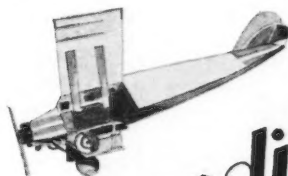
THE task of marketing Canada's exportable surplus of wheat, normally 300,000,000 bushels, calls for a marvel of organization. Harvesting is usually completed in a month or six weeks and there then commences an immense movement of the grain. The wheat fields are far removed from the seaports and, while large shipments are made through Vancouver, the outlet for the bulk of the crop is through Port Arthur and Fort William, adjoining cities at the head of the Great Lakes. The great problem is to forward as much as possible before winter closes navigation on the Great Lakes-St. Lawrence waterway system leading to Montreal and the Atlantic ports. The machinery for the movement and sale of the crop is undoubtedly the most highly organized in the world, and the rapidity and smoothness with which it works excite wonder. Railways, banks, dealers, lake carriers, ocean port authorities, field and terminal elevators—these and other interests operate at top speed to transport, finance, purchase, grade, ship and store the flood of golden grain. Sometimes the movement is so great that it is at the rate of 2,000,000 tons per second.

Provision for the wheat is first made at the country elevators, numbering 4300 with a total capacity of 140,000,000 bushels. In addition about 2000 loading platforms have been provided by the railways, and it may be noted that the individual farmer has the right under law to as many cars as any one elevator. The farmer may sell his wheat outright to a private elevator company, ship it to a terminal elevator to be held to his order, or deliver it to the wheat pool, a description of which is given later in this article. In the first instance he would receive a cash ticket redeemable immediately at the nearest bank; in the second he could place his bills of lading or storage receipts with a bank or broker and secure advances on them, and if his wheat were handled by the

(Continued on page 165)



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A N A T I O N A L O R G A N I Z A T I O N

Consolidation in the Cotton Ginning Business

By C. B. SHERMAN
U. S. Department of Agriculture

The Tendency Toward Large-Scale Operations is Seen in Agricultural Fields. Though there Has Been a Steady Decrease in the Number of Plants the Development of Cooperative Gins in Texas and Georgia has Attained the Proportions of a Movement.

THAT modern business tendencies toward large-scale operation are invading agricultural fields is perhaps nowhere more evident than in the cotton ginning business. The trend is definitely toward fewer but larger and more efficient plants making for increased output at smaller cost.

In 1912 there were, in round numbers, in the United States, 28,300 gin plants; the 1925 census disclosed about 18,300. Approximately 10,000 gins had gone out of business during thirteen years yet the quantity of cotton ginned in this country in 1925 exceeded the quantity ginned in 1912 by about 3,000,000 bales.

But this rapid consolidation of gins does not mean that farmers have lost all control of the ginning process for recently the development of cooperative gins in Texas and Georgia has almost attained the proportions of a movement. Interest has been keen not only among those involved but among those who have been watching them, for to date these cooperative gins have been strikingly successful, chiefly because of large volume of business per gin, and efficient management.

Economic Information Needed

IN spite of the fact that the ginning industry has undergone several highly significant changes during the last two decades and that thousands of persons have been involved in the industry and hundreds of thousands of dollars have been invested in it, economic information regarding the business is limited. The entire industry has grown up in response to certain well-known demands and without much conscious planning and direction. Often the mere occurrence of a large crop of cotton has meant the building of additional gin plants that were not required under normal conditions.

In early days ginning was a plantation enterprise. The grower of the cotton personally supervised the ginning and other preparation of the cotton for market, and all of the work was done on the premises. With the passing of the plantation system and the introduction of improved ginning machinery,

efficient power plants, good roads, and a realization of the advantages of large-scale operations, the plantation gins have been replaced, largely by custom gins.

As good ginning is essential to the proper marketing of good cotton, every factor in the great cotton industry is affected, sooner or later, by the ginner. Whether the ginner buys the seed cotton from the farmer or whether he merely gins it for the farmer, the producer is affected by the business ability of the ginner; and the difference between well-ginned cotton and cotton that has been poorly ginned is one that is likely to affect all of the later stages in marketing and use of the cotton.

Status of Industry

TO meet the need for more specific knowledge on the part of this essential industry, the U. S. Department of Agriculture recently undertook a study of the whole question. It was found that there has been a substantial decrease in number of plants in practically every state. Three states show decreases of approximately 50 per cent for the thirteen-year period—Georgia, Alabama, and Mississippi. Arkansas, North Carolina, South Carolina, and Louisiana show net losses of one-third or more, Texas about one-eighth, and Oklahoma one-tenth. The less rapid decrease in Texas and Oklahoma is probably due to the establishment of new gins in the new producing areas of those states. Gineries with less than 200 saws have been going out of business rapidly, whereas those with more than 200 saws have been growing more numerous.

More than 20 per cent of the gin plants in the United States are within the State of Texas, which is, of course, the great cotton-producing state. In 1912 there were in Texas more than 4000 plants, and by 1925 this number had been reduced below 3800. The low point was reached in 1922. Since then there has been a small increase each year because of the opening up of more and more cotton land in the state. New gin plants have been erected to care for this expansion. Since 1914 the average number of bales per active plant has

been consistently higher in Texas than for the United States as a whole.

For the last twelve years each active plant in the United States has turned out (on a yearly average) 642 bales; each active plant in Texas has turned out 963 bales; each active plant in Dallas County, Texas, has turned out 1155 bales, and each in Ellis County, Texas, 1412 bales. In 1906, 48 per cent of the gins in Texas had less than 200 saws, whereas in 1919 this percentage was reduced to about 16. The corresponding figures for the entire country were 80 and 53 per cent, respectively. As Texas is a comparatively new cotton state, the ginning business developed along newer lines there. In the first place, gins were more centrally located, larger plants were built, and subsequent developments have tended to perpetuate this situation.

Cost Analyses Made

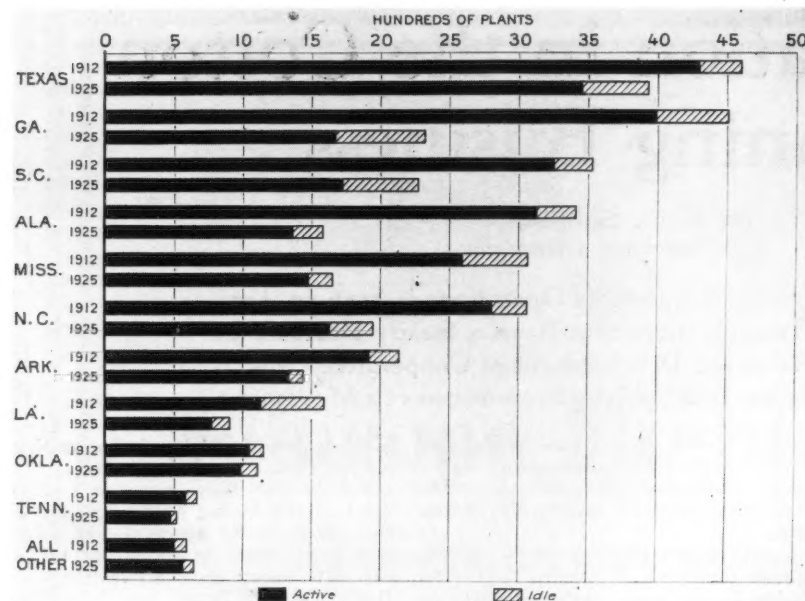
THE part of this study that has attracted most attention is the economic analysis of the practices and costs of cotton-gin operation. Effort was made to determine the factors that influence ginning costs, and to aid a ginner to determine whether his costs are higher than his competitors with a view to pointing the way toward readjustment.

For the purpose of cost analysis the ginning business was divided into its principal subdivisions, or sources of income, and each of these subdivisions was treated separately. J. S. Hathcock, who directed these studies, divides the business, for this purpose, as follows:

(1) Custom ginning. Gin service is performed for a stipulated charge per hundredweight of seed cotton to be ginned.

(2) Bagging and ties. In addition to ginning, gin service includes the pressing and wrapping of the bale of cotton, but the price of the wrapping material is not included in the charge for ginning. The wrapping material is bought and kept on hand by the ginner for sale to the customer and therefore becomes a source of income.

(3) Cottonseed business. Seed is purchased from the grower and sold to the cottonseed-oil mills. The customer



Ginning Plants in the United States

usually settles his ginning and bagging and ties charges when he sells his seed.

(4) Seed-cotton business. Nearly all gins buy some seed cotton. Toward the end of the picking season many growers have odd lots of seed cotton to be disposed of. They do not have enough to make a bale or they have too much for even bales. The ginner buys up these remnants and gins them for the account of the gin and sells the resulting lint cotton and seed. It is not unusual for a few bales of bollies to be bought and handled likewise.

(5) The purchase and sale of baled cotton.

(6) Mercantile business. This includes the purchase and sale of coal, feed, seed, etc.

In the cost analysis such phases were studied as influence of volume, influence of kind of power, influence of ownership, variations in costs, relation of itemized costs to total cost, and distribution of custom-ginning income to ginning costs.

How Many Plants Are Needed?

"HOW few plants can adequately serve the cotton growers of the South?" repeated Mr. Hathcock when asked for his general conclusions. "The answer to this question naturally hinges on many factors—the size of plant, good roads and fast modes of transportation, improved and additional gin service in the larger plants, new marketing systems, and in the final analysis, the grower's evaluation and demand for the kind of service that returns to him the largest net profit.

"The ginners themselves are in a more favorable position to influence the trend of the industry than any other group, for if gin service is to be improved they will be the ones to improve

it. By keeping their plants modern in all respects, and operating for profit, and at the same time for a satisfied patronage, optimum results are practically assured. To do this, however, ginners must be alert and give greater attention to the factors which influence operating and managerial efficiency. Too often ginners have subordinated the best interests of their customers in the rush to get a greater quantity of cotton ginned, and the results have been damaged lint and a heavy monetary loss to the grower.

"The day has come when the ginner must gin in the light of spinner demands, thereby giving his customer the highest form of service. To render this service, ginners must study intelligently the staples and classes of cotton and the influence of different cleaning and ginning methods on them. It is not improbable that in the near future there may be 'ginners' schools' to give instruction in ginning methods.

"So many factors are involved in efficient gin operation that it is deemed unwise to attempt to establish any rule-of-thumb procedure for ginners to follow. The cost records kept by the average ginner are, as a rule, very elementary, but most ginners have a fair idea as to the amount of most of their major costs. Individual ginners may, therefore, be able to compare their costs with group costs shown in this study, to determine their relative position in the group. The value of the figures presented will accrue to the individual who takes time to interpret them in the light of his own problems.

"Individuals or groups of individuals who plan to engage in the ginning business will find it to their interest to ascertain in advance the potential and actual cotton production of the community and the proportion of the crop they can reasonably expect to gin. With

this information as a basis, adequate ginning facilities can be erected or acquired, and plans can be made so that efficient operation may result in maximum returns to those interested.

"The engagement of the ginner in certain side lines like the purchase of baled cotton has occasionally been criticized. Custom ginning is the real basis of the ginning business. Its success as measured in efficient and economic service should not become dependent upon speculative enterprises. In our study no such general tendency has been revealed, but it is known that in times past ginners have engaged rather recklessly in the buying and selling of seed and cotton, in many cases holding them in a speculative way.

"The needs of the community, and the volume of business available are elementary considerations which should determine the construction of a cooperative gin. Because investment in fixed assets is relatively great and because the plant and equipment are largely useless for any other purpose except that of ginning cotton, consideration should be given to the present ginning service offered the growers, the trend of cotton production, the consistency of yields and acreage, the competition of nearby trading centers, the attitude of the growers toward cooperation, and other factors which might affect the success and permanency of the enterprise. Once the gin is established, good management is essential for success. Unless the gin follows policies that gain favor with the growers in the community, it may fail to get sufficient volume to make its operation profitable. Unless it is operated economically, it may fail to give its members the savings they anticipate.

"Cooperative cotton ginning is in its infancy. The importance and strategic position of cooperative gins in the field of cotton marketing are just beginning to be realized. Cooperative gins present many opportunities for improved and more efficient methods in cotton marketing, and should become important factors in improving the situation of the cotton growers."

Pacific Coast Regional Trust Conference

THERE will be held in San Francisco Oct. 17-20 the Sixth Regional Trust Conference, for the Pacific Coast and Rocky Mountain States. R. M. Sims, vice-president and trust officer, American Trust Company of San Francisco, has been chosen as the general chairman of the conference. Invitations will be sent to trust companies and banks in the eleven states of Arizona, California, Colorado, Idaho, Washington, Montana, Nevada, New Mexico, Oregon, Utah and Wyoming to participate in the sessions. The conference will be held under the auspices of the Trust Company Division of the American Bankers Association and the Associated Trust Companies of Central California.



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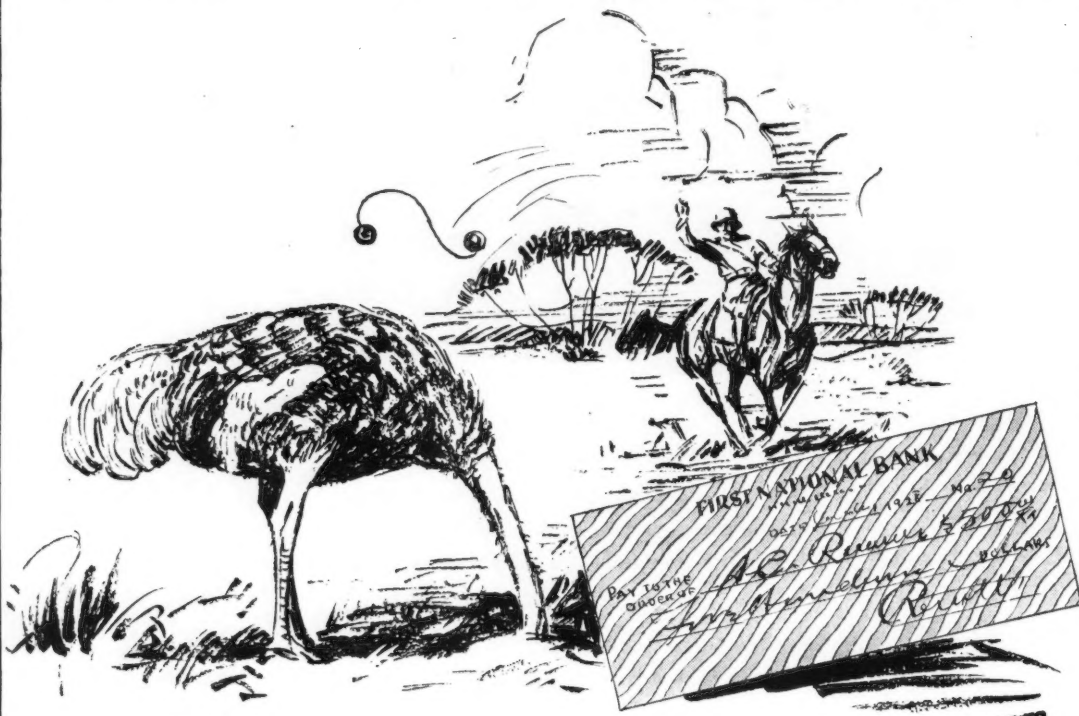


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Building and Loan Competition with Banks

By C. F. SCHWENKER
Commissioner of Banking of Wisconsin

Are Building and Loan Associations Doing Banking Business? Should They Be Regulated More Strictly? Competition Grows. Ignorance as to Building and Loan Theory Leads to Misunderstanding of the Problem. How Some Banks Handle Situation.

BOOM years for the building and loan associations during the past decade produced a mushroom growth of these organizations. This in turn has led to wholesale invasion of the banking field. Not only is there direct competition between building and loan associations and the banks, but the growth in the numbers of the associations makes them scramble among themselves for investments.

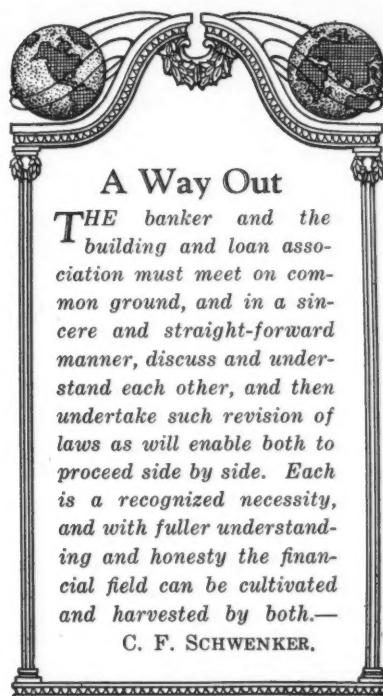
In 1915 there were 6806 associations, with total shareholders numbering 3,334,899 and assets of \$1,484,205,875. At the close of 1927 there were 12,803 associations with 11,333,700 members and assets of \$7,213,842,698. The increase in total assets for the past year was practically \$850,000,000. Since 1915 the number of banking institutions has decreased by about 15 per cent and the total increase in bank assets has been \$1,140,280,000.

The great war curtailed and practically stopped home building, the unfavorable agricultural condition drove thousands into cities and created an acute housing shortage, the banks had problems to solve brought on by the abrupt deflation, and the statutes governing associations heretofore engaged in home-building financing had lagged behind, and were generally not as rigid as those governing banks. All of these factors and many more paved the way for the greatest expansion the associations had ever known.

The New Tendency

NO one can deny that associations have a secure place in our economic scheme. We think of them as an instrumentality for home-building, a means whereby the individual without present capital can acquire for himself, a home, out of his future savings. It is a fundamental that the man who has a home to protect makes the best citizen and patriot. Our government has recognized this in extending to associations special exemptions from taxation, and the mutual association so favored was for home-building, and that is its field in our economic scheme.

Now we find that idea is passing. The associations have grown so large that their dues, dividends and share



sales become a problem in investment, and a definite tendency to step from the pure home-building field to general building finance is apparent. In the majority of the states it is possible for them to lend on any kind of real estate. Some states permit loans other than on dwellings only as to the investment of surplus funds, and permit loans on industrial plants, retail stores, etc. In two states at least, it is permissible to use surplus funds in the purchase of bond investments. Such investments in real estate mortgages, except for homes, cannot be anything but direct competition with banks and other recognized lending agencies.

Going a little further in this regard, we find that there is generally no limit to the number of shares, installment or fully paid, which any member may hold, nor is there any limit to the size of the loans, except such as the individual as-

sociation may direct through its by-laws. The intent of the government in favoring associations is to create homes. It does not seem logical that our government would wish its citizens to live beyond their means, yet this type of lending, particularly when the margin above the mortgage is narrow, and the loan without limit, causes a great many members to make contracts which they cannot fulfill, and from which they escape usually by a sacrifice.

The Banks Finance Them

ONLY about 40 to 45 per cent of the contracts are carried to maturity by the original shareholder. Nor was it intended that the mutual savings of the members was to be diverted to industrial pursuits. Loans on factory and retail buildings are capital in their nature, and interest derived therefrom should receive no favors by way of exemptions. In some states, the laws fix a maximum limit of loans any single member may hold in any one association, but in most it is either limitless or lies in the discretion of the boards of directors. With such freedom, the real estate operator, the subdivider, or the contractor finds a convenient outlet for his real estate, which provides him his profit at once, and in cash.

Some brake might be placed on expansion at a too rapid rate, if a cash reserve were required, but few states have such requirements. In order to pay the high rate of dividends, it is, of course, necessary that all of the capital be constantly employed, and the associations carry comparatively meager balances in the banks. By the nature of their business, there are seasonal demands, and the associations are more often the heavy borrowers. They depend upon the banks in their cash requirements, they keep no cash reserve, and the bank which finances them lends them their needs, and, at the same time, maintains an adequate cash reserve for their protection. When the association loans are of an industrial character, it is direct competition, and banks ought to withhold loans to associations which have them.

It is quite true that the great bulk of the loans of associations are on dwell-

(Continued on page 146)

How the Franc Was Stabilized

By HARRISON REEVES

The Dramatic Culmination of the Efforts of Poincaré to Bring Into Existence "the Little Franc" on What Will Go Down in History as the Black Sabbath, Grand Prix Day in 1928. Some Expected Effects of New Valuation on French Life and Business.

PARISIANS, ever talented in the coining of hard phrases to dramatize great events, instantly struck off "Black Sabbath" to forever fix in French memory the date of the birth of the "Little Franc." For on Sunday, June 24, Grand Prix Day, in glorious weather, Premier Raymond Poincaré's immortal bill stabilizing the franc became law. Nevertheless, the famous horse race was run as usual before a bigger fashion parade than ever before, more citizens bet more bank notes on it than ever in its long history, leaving, aside from their holiday thoughts, the lonely Finance Minister, who is reported to have whimsically remarked to a crony after his titanic labors: "Before, they called me Poincaré War; now they will call me Poincaré Bankruptcy."

To an extent unusual in high politics, a remarkable achievement may be credited to the genius of a single individual.

Three Courses Open

IT is perhaps of interest to note three courses of action open to Finance Minister Poincaré when he had achieved a certain degree of stabilization of the franc once it had recovered from the chaos of previous ministries. On July 23, 1926, when Poincaré was called to head a non-partisan government, the franc was worth 1.93 cents. Two years and one day later it was legally stabilized at 3.92 cents.

First, he could choose the system currently denoted in France by the English term, "gold exchange standard." French economists and bankers interpret this phrase as indicating a régime under which there is no internal convertibility of national bank notes into gold in any form. The national government buys enough foreign exchange to cover any conversions of its bank notes into gold which may take place outside the frontiers of the country. This is the system which has been in operation in Austria, Germany, Belgium, Italy and Poland since their return to a gold basis.

Second, there lay open to his choice the so-called "gold bullion standard," the present British régime. Under this system no gold coins circulate within the country and the government is not obliged to convert its bank notes into gold. For payments to be effected outside the country, conversion of notes into gold is offered in "bullion" only. The French take their own word "bullion" to mean uniquely gold bars,

not coins, but the British Currency and Bank Notes Bill, as announced by the Chancellor of the Exchequer in his budget speech of April 22, specifically defined "bullion" as "including any coin which is not current and legal tender in the United Kingdom." American dictionaries make "bullion" mean both coined gold and gold bars. The delicate co-efficient of the degree of fineness in coins, ratio of 11 to 12 in England and Portugal and of 9 to 10 in all other countries, does not seem to be taken into account in legal definitions of the term.

A third possibility was the "gold standard" pure and simple, which the French define to mean a system under which gold coins circulate freely and under which bank notes must be converted on demand. It is significant that all three expressions descriptive of a gold basis for paper money are English and that they were adopted in all their purity and entirety—as if no equivalent expression could be found in French—by the French press and the French parliamentary world in the vast polemics which have raged throughout the past two years.

Out of the Question

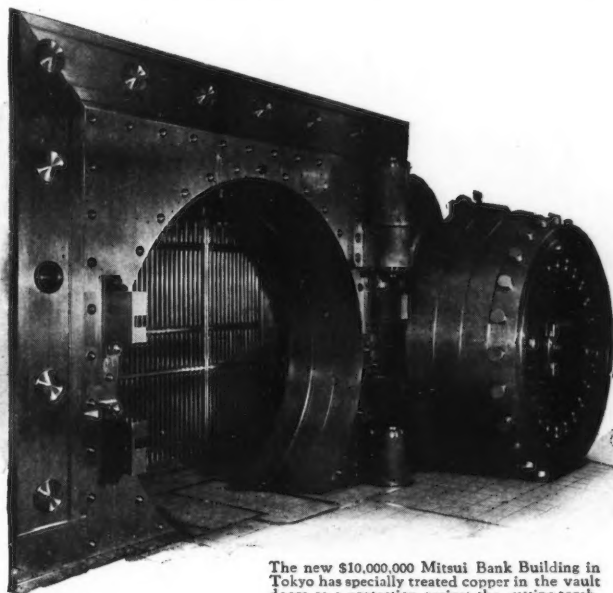
SOLUTION number three, that of the "gold standard," was obviously out of the question, although national pride, always a prime consideration in matters which touch human vanity to the quick, will doubtless make the French speak and think and act just as if they could really get golden Louis pieces from the tellers' windows in the Banque de France now instead of, say, in 1932, the earliest probable date. French professional opinion, as expressed in the financial press, makes a bold front of "hoping," if not "believing," that a return to a mono-metalistic (gold) standard, to replace the bimetalism of before the war, is not distant. But a note of sadness in editorials and interviews would seem to betray some little lack of faith in such a millennium for the moment, at least until the 60,000,000,000 francs in bank notes of the Banque de France have considerably shrunk. The saddest note of all, however, is rung on the complete dilapidation of that handsome bimetallic monetary palace, the Latin Union, composed of France, Belgium, Switzerland, Italy and Greece. The crumbling of this edifice carried with it generations of sublime hopes and sublimer oratory.

Solutions number one and number two, those of the "gold exchange standard" and the "gold bullion standard," have provoked whole libraries of the financial polemic, for the ancient Gallic talent in highly technical controversy still makes the best Anglo-Saxon efforts sound like corner-store arguing. The gist of the victorious case in this two-year marathon in economic theory appears to be about as follows: Since a reserve in foreign exchange is incontrovertibly easier to accumulate and concentrate than a gold reserve, and since, furthermore, it earns interest, it is easy to understand why the "gold exchange standard" or the "gold bullion standard" were chosen by several of the countries wishing to return to "healthy money." But—and here the real battle of the professors begins—both of these systems hide grave disadvantages, the most dangerous of which is the double basis of credit which they inevitably involve. The reasoning is that gold held in foreign countries by a nation seeking to stabilize its currency through either of these devices must serve at the same time as a basis for the credits and for the bank notes of the said foreign countries where the metal is on deposit, and for the credits and bank notes of the nation endeavoring to achieve "healthy money." Hence, there does result a real "inflation" of international credits. Hence, again, one form of "inflation" is exchanged for another—internal, acute inflation for external, international, chronic, spread-out inflation.

Value of the Little Franc

POINCARÉ got his bill passed. The new franc, the "Little Franc," will be worth 65.5 milligrams of gold of a degree of fineness represented in the headlines by the figured enigma 900/-1000. Wall Street foreign exchange specialists were put to it to translate the *Journal Officiel* of Monday, June 25, very carefully indeed to learn exactly what the law was, once that sedate governmental newspaper arrived by post. The eleventh-hour calculations of these gentlemen on Saturday noon, June 25, were not without interest. Three possible "cours," or rates, were more or less officially foreseen and consequently taken into account in speculation. First, a coefficient of exactly five to one; second, a coefficient of slightly below five to one, and, third, a new franc value

(Continued on page 162)



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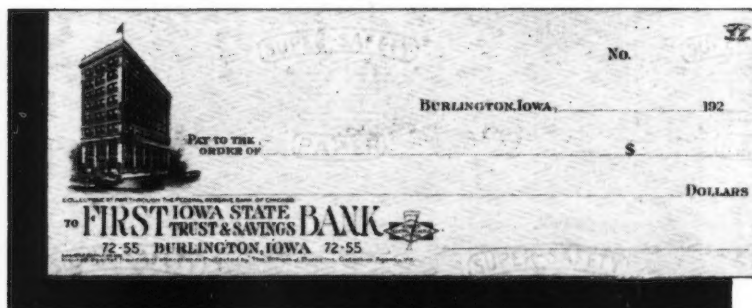
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The German Transfers Bugaboo

By ROBERT CROZIER LONG

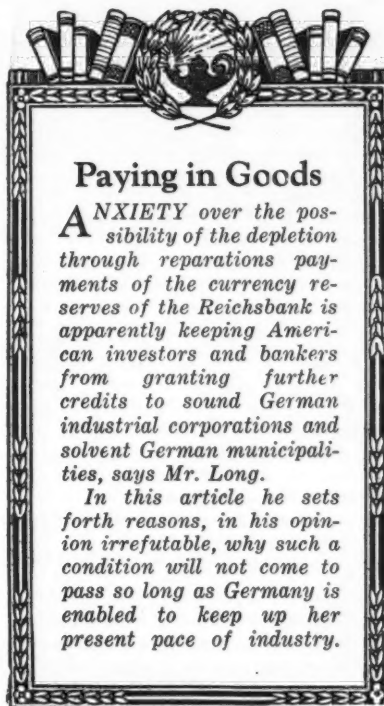
There Is No Prospect of a Failure of Germany's Exports and a Consequent Shortage of Exchange for Paying Debts Abroad. State and Municipal Borrowers with Surpluses in Reichsbank Equivalent to Dollars They Owe Will Always Be Able to Pay.

IN the February number of the AMERICAN BANKERS ASSOCIATION JOURNAL it was shown that there can be no question of priority of reparations transfers over Germany's dollar liabilities to her creditors in the United States.

Reparations priority and exchange rationing are merely alternative synonyms for "repudiation of Reichsbank notes." The Reichsbank cannot, and has not, the least intention to repudiate its notes. Repudiation, apart from its general ruinous effects, would mean the destruction of the reformed reichsmark currency, the stability of which at its full nominal gold value is the pillar of the Dawes Plan. The conclusion drawn was that even if there were a shortage of foreign exchange with which to pay debts abroad, German non-reparation debtors to America would have priority over the reparations debt. That is also the plain text and unambiguous meaning of the Dawes Plan.

But Germany's American creditors have another question to ask, and that is: Is there any likelihood of there being a shortage of exchange for payment of any German debts? Obviously, if there is a likelihood, the creditors cannot feel wholly safe even if they have priority over the reparations creditors. The shortage might be so acute that it would be impossible not only to make reparations transfers, but also to make transfers for payment of interest on America's loans. This doubt is the substance of the so-called transfers question. The transfers question is popularly associated only with reparations. But if there is a transfers question for the reparations debt, how do we know that there will not be a transfers question for debts generally?

The reply to this conundrum—given with all due deference to some eminent authorities who hold opposite views—is that there is no such thing as a transfers question either in regard to reparations or in regard to other German debts abroad, and that America's German creditors have nothing to fear. All that is necessary is that those German borrowers who do not receive sufficient dollars directly through export operations shall have a sufficient sum in reichsmarks of stable quality and full gold value. The latter remark applies mainly to German state and municipal borrowers whose revenues are entirely in reichsmarks. If the borrowers are solvent within Germany, that is, if they



Paying in Goods

ANXIETY over the possibility of the depletion through reparations payments of the currency reserves of the Reichsbank is apparently keeping American investors and bankers from granting further credits to sound German industrial corporations and solvent German municipalities, says Mr. Long.

In this article he sets forth reasons, in his opinion irrefutable, why such a condition will not come to pass so long as Germany is enabled to keep up her present pace of industry.

have reichsmark surpluses equivalent to the dollars needed for service of their debts to America, then no doubt whatever exists that they will always be able to purchase the necessary dollars at par of exchange.

No Exchange Shortage

THE transfers question will not bear examination. Theory, history, present practice, and the three years' experience of the Dawes Plan all concur to show that reparations cannot cause a shortage of exchange, and that, given Germany's general solvency, an exchange shortage cannot ensue for payment of other debts abroad. Germany is in exactly the same position as Great Britain, Sweden, Norway, and other prosperous countries that have public and private debts to America. Her admitted solvency at home guarantees without any qualification her ability to transfer in any currency for payment of her foreign debts.

What is the transfers question, the question which has waxed to the impressive dimensions of a myth, and which

today overshadows reparations and all other questions of Germany's international solvency? It is simply the question of an assumedly possible shortage of foreign exchange. On the origin of the question, the Dawes report throws no light. The report makes a distinction between internal mark and external exchange payments, assumes that a shortage of exchange may ensue, and dismisses the rest of the apparently complicated problem with the remark: "It is obvious." Persons who were in touch with the Dawes Committee have put the matter more precisely. The former Accountant General to the Reparation Commission, George Auld, in his book, "The Dawes Plan and the New Economics," says that "The (Dawes) committee considered it possible that the demand for foreign exchange for reparations payments, plus the ordinary commercial demand for the purpose of paying for foreign imports, might prove to be in excess of the demand abroad for marks with which to pay for German exports. . . . The currency reserves would thus be depleted."

This quotation is very instructive because the sentence, "the currency reserves would thus be depleted," emphasizes the fact pointed out in the February number of the AMERICAN BANKERS ASSOCIATION JOURNAL that exchange rationing would merely be repudiation of its notes by the Reichsbank. But Mr. Auld does not show why a depletion of the bank's reserves should be expected, and apparently he is satisfied with the Dawes experts' "It is obvious."

Americans Feel Anxiety

UNLUCKILY, the apparent obviousness keeps American investors, and the American bankers, who are their intermediaries, in a condition of anxiety. This anxiety is the only known reason for not granting further credit to sound German industrial corporations and solvent German municipalities. For that reason the supposed transfers question needs an examination.

The first point to be borne in mind is that reparations are an ordinary public debt abroad, a large debt indeed, but in no respect a special debt. Their political origin has nothing to do with the question of transfers. This point leads to the remark that no transfers question has ever arisen in connection with other public debts abroad. The question has not arisen in connection

with Great Britain's war debt to the United States, nor did it arise in connection with Russia's heavy pre-war debt to France and England. The question is exclusively associated with the reparations debt, though, to repeat, the reparations debt is not distinguished by anything except magnitude from other international public debts.

The transfers question is a theoretical and practical novelty. The onus of proving the existence of any economical novelty lies upon the persons who propound it. But no authority has ever either theoretically or practically proved the existence of the reparations transfers question. The question is taken for granted.

Theoretically, the question has never been established. Practically, it has been severely tested, and the result of the test is to show no sign whatever of it. The practical test is supplied by the three years' history of the Dawes Plan.

It is true that a great part of the reparations annuities in the first three years were transferred to the creditors in kind and a smaller part only in cash. But the Dawes experts declared with truth that transfers in kind have the same effect upon the exchange market as transfers in cash. The reason is that the goods which Germany delivers to the Allies in kind are lost to the ordinary export market, so that no exchange comes in for them. The Dawes experts not only accepted this truth, but also made it the basis of their regulations for suspension of transfers and for accumulation of the annuities within Germany should the transfers committee be of opinion that transferring would "destroy stabilization."

The Three-Year Test

THE test of the first three years is therefore an entirely valid test. The reports of the Agent General for Reparations, Parker Gilbert, show that transfer was conducted with extraordinary ease and smoothness, and that the market's stability was never in any way threatened. Year by year transfers became easier. At the end of the first reparations year, Mr. Gilbert had in hand an untransferred credit balance of only 67,000,000 marks, this out of 1,000,000,000 marks paid to him for the annuity. He does not refer to this small untransferred balance as being untransferable. On the contrary, in one report he states that the untransferred balances are merely "convenient working funds." At the end of the second reparations year the untransferred cash balance was 93,000,000 marks. But as the second annuity was larger than the first by 220,000,000 marks, it follows that the second year's transfers were about 200,000,000 marks bigger than that of the first. At the end of the third year the balance was 185,000,000 marks. But as the annuity this year was 280,000,000 marks larger than in the second year, it follows that he transferred again 200,000,000 marks more than in the second year.

The agent states that of this 185,-

000,000 marks, nearly all of which came in in the last week of the year, he already had "committed" himself to transfer 145,000,000 marks. So that the real untransferred balance was only 40,000,000 marks—this after three years, during which the German government paid the agent nearly 4,000,000,000 marks.

Mr. Gilbert emphasizes the fact that his small balances were not due to "difficulties of transfer." A careful study of all his reports in so far as they deal with transfers proves by figures and by facts that there was no sign of the world-shaking transfers question. Finally Mr. Gilbert, in his report of Dec. 10, 1927, declared that a satisfactory and final reparations settlement will not need any regulation of transfers at all.

That is how the supposed transfers question stands the test of practice. It stands the test of theory equally badly. The theory, which is itself based on long observation, is that all a nation needs to do in order to pay a public debt abroad is to raise the necessary sum in sound native currency. If it does that it can easily buy the necessary foreign exchange. That was the method pursued by Russia with her large pre-war debt. Sometimes she experienced difficulty. But the difficulty lay in the fact that, owing to famines or other troubles, she was unable to raise the necessary budget surplus in native rubles. In normal years, when she had the budget surplus, no question of its transferability into sterling and francs ever arose. Now the Dawes Plan assumes, and the assumption has so far been justified, that Germany will always have the full reparation moneys in her native marks. Why should not they, like the Russian rubles, be transferable? According to the Plan, the German reparation marks are to be "equivalent to gold marks," that is, of full value, and the Dawes experts took the most rigid measures to insure that the new reichsmark should be "equivalent to" a gold mark. Why, again, should such marks not be transferable?

The answer is that marks would not be transferable only if they were already depreciated before the transfer committee attempted to purchase foreign exchange with them. Had Russia, say in 1913, reported to London and Paris that she had sufficient rubles "equivalent to gold rubles" for the service of her debt, but that—to adapt the Dawes Plan's phraseology—she could not transfer them in sterling or francs because transferring would "destroy stabilization," it is certain that her foreign creditors would have laughed at her and have declared that rubles equivalent to gold rubles must always purchase sterling and francs at par. If the rubles would not do that, they must be depreciated. In reality, the creditors would have discovered the depreciation by observing the ruble in the exchange market. The ruble would have been inflated.

The reichsmark is in no danger of inflation. The Dawes experts saw to that. They not only imposed on Ger-

many a bank law which is particularly rigorous in restricting credits and in compelling maintenance of adequate reserves, but they insured observance of the law by putting foreigners on the general council of the Reichsbank and by putting at the top a foreign commissioner of the Reichsbank who can intervene immediately at a first sign of a breach of the law. There is not the least sign that Germany desires to inflate, but all her 60,000,000 inhabitants, working together, could not inflate against the provisions of the Dawes Plan. The most solid countries of Europe, like England and Holland, could inflate their currencies if their governments and their populations wished it. But it would need the assent of half a dozen countries before the reichsmark currency could be inflated.

German prices during the past three years show that the currency has been effectively protected against the depreciation which alone would make it impossible to transfer at par. Despite a tremendous trade boom in the last twenty months, the wholesale price index between the beginning of 1925 and February, 1927, actually sank a little—from 138.2 to 137.9; and prices are lower than in some other stable-currency countries, which have indices of 160 or higher. The growth of German exports proves her reasonable price level. A country which, while maintaining its exchange at par, had a high price level could not possibly expand its export trade; more likely than not, its exports would decline badly, and in the end wreck its currency. Between 1924, when the Dawes Plan came into force, and 1927, Germany's exports increased from 6,677,000,000 to 10,819,000,000 marks—that is, in three years by 60 per cent. In these three years imports, though swollen by import of borrowed capital, increased by only 58 per cent; in reality, as the Statistical Bureau admits, exports were larger and the imports smaller than was shown by the trade returns.

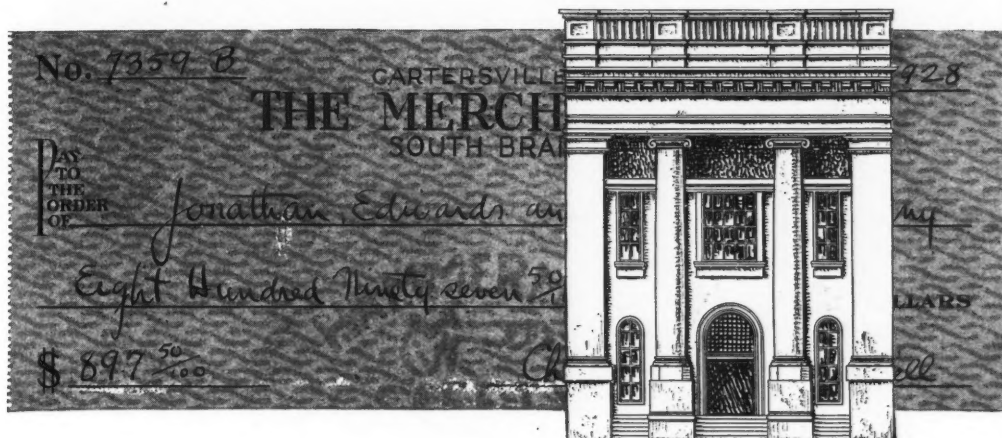
In general, it may be said that the reichsmark is the best currency on the European continent, and that it is fully "equivalent to a gold mark," and will remain equivalent. It is impossible, therefore, to see why a transfers question, consisting in a shortage of foreign exchange, should ever arise.

Payments System Tried

THE system of debt payments has been tried by all debtor countries, and so long as these countries kept their currencies sound, there has never been any sign of a transfers question. The system is what is known as "creation, by means of taxation, of a supplementary export for the payment of a public debt to abroad." This system assumes that no shortage of exchange can ever occur. The mechanism is simple. The debtor country imposes supplementary taxes equivalent to the foreign exchange payment required for service of the debt abroad. Thereby it deprives its citizens of an equivalent home buying power.

(Continued on page 148)

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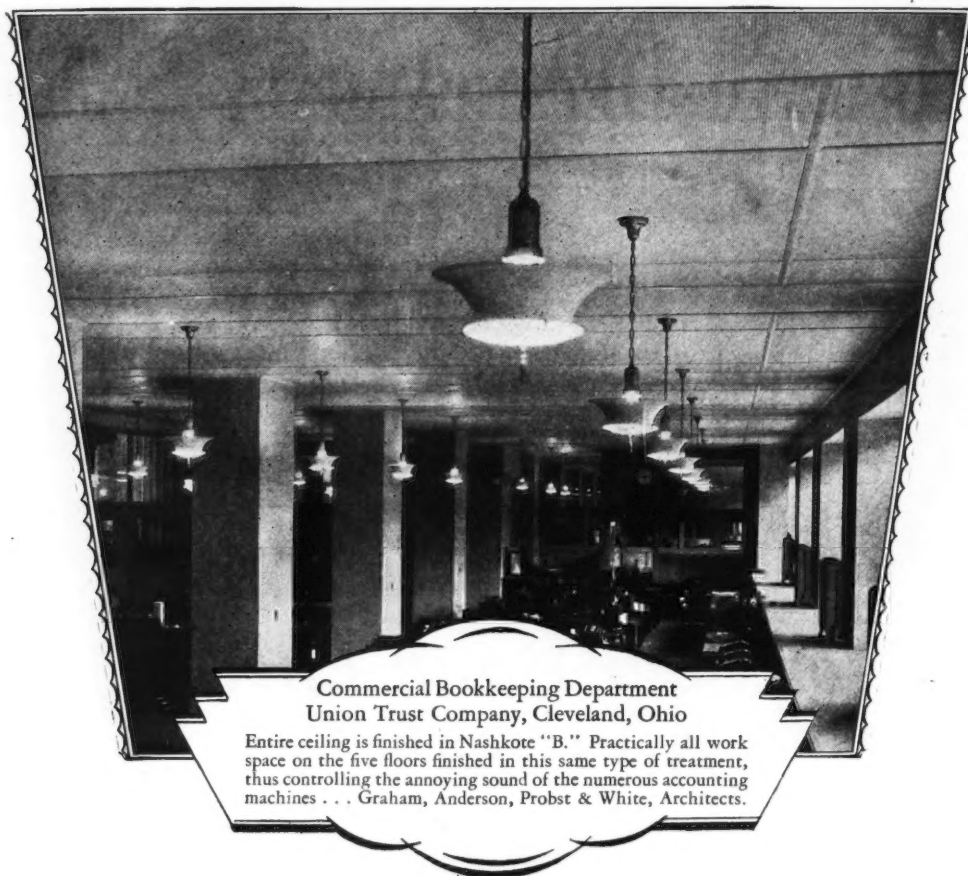
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When writing to advertisers please mention the American Bankers Association Journal

League Island for Convention Visitors

BY MASON MCGUIRE

A CITY within a city—leading a life entirely separate, with its own main street, general stores, social life and recreation centers—is the League Island Navy Yard at Philadelphia where the American Bankers Association will convene in October.

Situated at the confluence of the Delaware and Schuylkill rivers, League Island, which is supposed to have received its name because of the fact that it is about one league in circumference, has been a landmark since the days of Colonial settlement. Its history as a naval station did not begin, however, until 1876. Purchased by the city of Philadelphia in 1862 for \$310,000, it was presented to the federal government for its present purpose but, owing to the Civil War, improvements were not begun until about ten years later, and it was early in 1876 before the government moved its naval station from Federal Street on the Delaware river to League Island.

THE old structures, the little group of red brick shops and offices, and the wooden residences that formerly constituted what was considered a large navy yard, are now quite dwarfed by the many new ones that have been erected. The main street of Philadelphia, Broad Street, passes through the center of the yard and to the east and west of it the developed areas cover approximately a thousand acres. Where forty vessels formerly represented the maximum number tied up to its piers, there are now more than 140 vessels.

Although but little more than a half a century old, League Island's years are crowded with naval tradition. The achievements of which it was the scene during the recent war alone form a notable chapter.

Recognized as the best equipped base for the tremendous emergency shore operations necessary to support a war-rigged fleet, the yard immediately became the chief station for the repair and reconstruction of American war vessels. The vast industrial establishment that it is today sprang up almost overnight. Its daily population of workers shot up to 25,000.

Soon after the beginning of hostilities forty destroyers were prepared for sea duty and equipped with depth bombs. Forty submarine chasers were fitted with the necessary tackle and weapons and a dozen more were made ready for the French navy.

A score of German ships seized by our government were converted into troopships and two German cruisers, the Prinz Eitel Frederick and the Kronprinz Wilhelm, were remodeled here for our uses.

There was a big job repairing merchantmen and equipping them for ser-

vice as troopships and cargo carriers for the American Expeditionary Force.

ONE of the most important contributions of League Island to the winning of the War was the expeditious dispatch of the marines to Chateau Thierry. The world remembers that the Fifth and Sixth Regiments were brought up on motor trucks at one of the most critical moments of the War. But what transpired behind the barred gates of League Island in making it possible for General Pershing to fling these regiments into that sector of the French front is in many ways an almost equally thrilling story.

The story of the construction of ships, big and small, would make another lengthy chapter. Moreover, there was an exceedingly busy aircraft factory—the government's first and only—which completed two bomber type seaplanes a day and was rapidly speeding up to a daily output of four and even six at the time the War ended.

The water-front of the navy yard is an ever-changing vista of masts and rigging, gun turrets and gray hulls. And for background there are some striking marvels of mechanical and engineering genius.

Looking west along the Delaware river front, for example, is the "fitting out" pier, a structure 1000 feet long, 100 feet wide, with 35 feet of water at low tide—the finest and longest pier on the river. Its cost was more than three quarters of a million and at the outer end concrete caissons resting on footings sunk to a depth of 75 feet sustain the massive weight of the huge crane, named "The League Island."

This crane is a dominant feature of the river-front, towering higher than an eighteen-story building and capable of lifting a fourteen-inch turret, with its guns in place, out of a battleship and placing it if necessary at a height greater than that of the Brooklyn Bridge. An idea of the length and capacity of this million dollar lifting device, the largest crane in the world by more than a hundred tons, is afforded by the fact that on test it lifted a load of 440 tons and swung it over more than a 100-foot radius.

LEAQUE ISLAND'S new drydock much resembles a section of the Panama Canal. Its depth and width are equal to the locks of that great waterway and the railroad tracks along the

(Continued on page 153)

New Membership Certificates

MEMBERS of the American Bankers Association will on Sept. 1 receive from the Association headquarters in New York City certificates of membership for the fiscal year ending Aug. 31, 1929, signed by the Executive Manager, F. N. Shepherd, and countersigned by the Treasurer, W. D. Longyear.

With the certificate there will go to each member a bronze insert showing that dues have been paid, and this insert should be placed in the sign of the Association held by members and displayed in a prominent position over the paying teller's window. The sign is a protection, for it serves as a warning to those who might otherwise attempt a hold-up or commit other crimes.

The Constitution and By-Laws of the Association provide that membership dues shall be paid in advance, as of Sept. 1, the beginning of the fiscal year. To avoid unnecessary correspondence and delay, members are urged to honor the certificates when presented. The schedule of dues for banks and trust companies (based on capital and surplus) follows:

less than	\$25,000.. \$15
\$25,000 and less than	100,000.. 20
100,000 and less than	250,000.. 35
250,000 and less than	500,000.. 50
500,000 and less than	750,000.. 75
750,000 and less than	1,000,000.. 100

1,000,000 and less than	2,500,000.. 150
2,500,000 and less than	5,000,000.. 200
5,000,000 and less than	10,000,000.. 250
10,000,000 and less than	15,000,000.. 300
15,000,000 and less than	20,000,000.. 350
20,000,000 and less than	25,000,000.. 400
25,000,000 and less than	30,000,000.. 450
30,000,000 and less than	35,000,000.. 500
35,000,000 and less than	40,000,000.. 550
40,000,000 and less than	45,000,000.. 600
45,000,000 and less than	50,000,000.. 650
50,000,000 and less than	55,000,000.. 700
55,000,000 and less than	60,000,000.. 750

Private Bankers and Banking Firms:

Dues are based on capital employed in their business per schedule above.

Dues for Branches of any of the Above Classes of Membership:

With separate capital, same as schedule: without separate capital, specifically set aside therefore.....\$15
Dues for mutual and cooperative savings banks or institutions without capital are based on their surplus or reserve fund, as per table above:

Dues for Canadian Institutions:

Based on above schedule with the exception that \$250 is the maximum fee.

Please remit direct to the American Exchange, Irving Trust Co., 60 Broadway, New York, in New York funds, making your check payable to that institution.

Possible Trends in Transportation

By HARPER LEECH

AMERICA is primarily a railroad country—our history will never be written correctly until the overwhelming importance of the railroad is analyzed and properly fitted into the chain of events which make up our yet untold national story. America will remain a railroad country, more than any other, except Canada, and Russia; if Russia finally goes sane and travels the white man's way of life. But the future American railroad—it seems today—may be owned by a company selling all kinds of transportation with rail borne traffic merely the core of the business.

The picture of America today, whether seen from an automobile, from the rear of a fast passenger train, from a bus, from an airplane or from an electric interurban, reveals all forms of transportation involved in the new competition growing in some particular—none of them is dying. The tide has even turned for the horse, if the price of horses and the increased number of colts foaled this spring mean anything.

There are still 100,000 horsepower of ox teams at work in America, and there is no certainty that they will disappear.

We are moving into an age of specialism in transportation. The attempt of the New Haven and other railroads many years ago to coordinate steam, electric, boat and ship transportation was on the main line of transportation evolution, but was thwarted. We are beginning to realize our mistake. Canada has shown us that our real hope for a self sustained mercantile marine lies in the ownership of ship lines by big railroad companies.

It has just been announced that co-ordinated air and rail transcontinental service will be given by two great railroads and financed by a conservative Wall Street investment house.

Is the airplane going to take all the long distance passenger traffic?

What People Will Pay

ONE could array many convincing figures to show the impossibility of that—such as the limitation of the pay load in an airplane, the necessity of providing at least one horsepower of motor capacity for every twenty-five pounds of weight flown, the volume of travel, actual and potential, against the computed cost of carrying all that load of human flesh, but Dr. Simon Newcomb demonstrated just as conclusively that men would never fly, almost simultaneously with Langley's physical demonstration that mechanical flight was possible.

There are not many people apparently who will pay \$10 extra to arrive 6½ hours earlier at San Francisco, but soaring overhead are airplanes, which charge \$110 more for a one-way trip than the round trip by rail, and of late

they have been carrying capacity loads. Some of the planes leaving that air port, it is said, can show an operating cost of only 60 cents per mile—I will not vouch for the figure—but as those planes can carry only two passengers it is evident that they must have mail and express aplenty or charge 30 cents per mile.

People will pay all sorts of prices to ride, if they get the kind of riding they want.

They will not pay \$10 to save a few hours to the Pacific Coast—but they pay extra fare to get to New York, to such an extent that the Century is one of the biggest assets of the New York Central railway.

It is curious that actual cooperation of railways and airplanes in transcontinental traffic antedated any formal action by the railroads. Ticket agents in New York have for a long time been suggesting to ticket buyers, who had emergency reasons for a quick trip to the Coast, that they wire ahead for airplane reservations out of Chicago. No small part of the first transcontinental traffic secured by air lines was due to this voluntary service.

Crossing the Desert by Bus

MANY men who attempted to ascertain future traffic evolution from cost figures a few years ago, were certain that travel by bus would be mostly limited to short hauls.

Crossing the desert between El Centro, Cal., and Yuma, Ariz., the other night I found that most of my fellow passengers on that bus were bound for points as far distant as Oklahoma City, Kansas City or Chicago. One was en route to New York. Most of them had started from San Francisco or Los Angeles, but one was from Seattle, another from Portland.

Already the mileage of common carrier bus lines in this country exceeds the mileage of railroads. The buses carried last year over two and a quarter billion passengers.

Common carrier buses received from the traveling public last year almost a third of the amount received by the railroads for passenger service, but they carried three times the number of individual passengers. This of course shows that their average haul is shorter, but it is the extremely short haul passenger business of the railroads, not their long or medium haul business, which is growing. From 1922 to 1927 commutation traffic of the railroads increased 20 per cent, while their total passenger traffic declined about 15 per cent.

The commutation business of the railroads has been increasing as a direct result of the expansion of cities and suburbs, so largely due to the automobile, while the automobile and the bus have been cutting into their long haul traffic.

It is interesting to observe that from the standpoint of the number of passengers carried, both the steam railroads and the common carrier buses are pygmies compared to the electric roads. With their 16,000,000,000 passengers annually the electric roads carry five times the number of people handled by all railroads and common carrier buses. These figures are of course swelled by the huge totals of the New York, Boston and Philadelphia subways and elevateds, and by the Chicago elevateds, but the despised street car nevertheless is a transportation giant.

The potential passenger carrying capacity of all the steam and electric railroads at any one time is about 6,600,000 passengers, that of all private and common carrier automobiles is about 70,000,000, but the actual ratio of passenger service performed is probably not more than five to one of motors to rails, as the private automobile on the average carries not quite two persons per trip, and is used intermittently. Passenger service of steam railroads amounts to 300 miles per inhabitant per year in America today. Even allowing for a doubling of motor bus traffic, and a vast increase in air traffic, there is no reason why it should decline. The assured growth of the suburban business of railroads and the prospect of its very great stimulation by electrification and better speed, as strikingly illustrated by the Illinois Central's Chicago electrification, is warrant for that belief.

Freight by Train and Truck

THE present freight carrying capacity and performance of the railroads is so tremendous compared to that of automotive agencies and the evident limitations of airplane in freight capacity is so apparent, that the statisticians and prophets are yet in a very comfortable position in regard to their forecasts of freight movement. However, there are several interesting instances in which facts have clouted the oracles.

The freight ton mileage of all motor trucks not operating on city streets, where they have merely displaced horse cartage, is probably not 2½ per cent of the freight service performed by the railroads.

The motor truck zone is said to be about fifty or sixty miles in radius.

For the average of all freight it may even be less. Yet down in the Imperial Valley there may be seen moving along the highways on huge trucks, each with one trailer, loads of alfalfa hay.

The hay will keep—there is no hurry. It has a rather considerable bulk in proportion to its value, just the sort of freight that most of the experts have always figured would travel by rail, because railroads can do an average ton mile for a little over a cent, and trucks

(Continued on page 179)

THE WORLD ON WHEELS

The United States furnishes the wheels—and the power—
and Dodge Brothers does its share.



POLITICS absorbs the best minds of Europe; business absorbs the best minds of America. Having no enemy neighbors to conquer or conciliate, we go about our business quietly and effectively undisturbed by wars or rumors of wars. That has built up a great social and industrial commonwealth rightly known as the "United" States.

In 1927, this country sent 105,359 motor vehicles to Europe. They sent us, in return, 635 motor vehicles. It isn't the high price of, or the high tariff on, motor vehicles that keeps foreign cars out of this country. Any one of our 100,000 taxpayers on \$25,000 a year or more income can afford any kind of a car he wants. The truth is, we make better cars here and we make more of them. Nor is it considered smart nowadays to display a foreign label. Lindbergh, flying to Paris over night, attended to that. Distance lends no enchantment to a place to which you can migrate with little more luggage than a tooth-brush.

The motor vehicle industry ranks first in the United States, with meat packing second; steel works and rolling mills third. Among exports, the motor vehicle ranks third, passed only by raw cotton and petroleum products. The value of our motor vehicle exports in 1927 was \$406,000,000 as against motor vehicle imports valued at \$1,218,938.

Motor registration in Great Britain is about equal to motor registration in Michigan; regis-

tration in France approximates registration in Indiana. Denmark equals New Hampshire. They drive as many cars in Montana as they do in all of Sweden. Japan matches the state of Wyoming. And, 85.9% of all the cars driven in the world are produced north of the Rio Grande!

The world is rapidly taking to wheels. The United States is furnishing the wheels, plus the power. And if, within the past five years, exports of motor vehicles have doubled—what will be the figure five years from today? Double? Or treble?

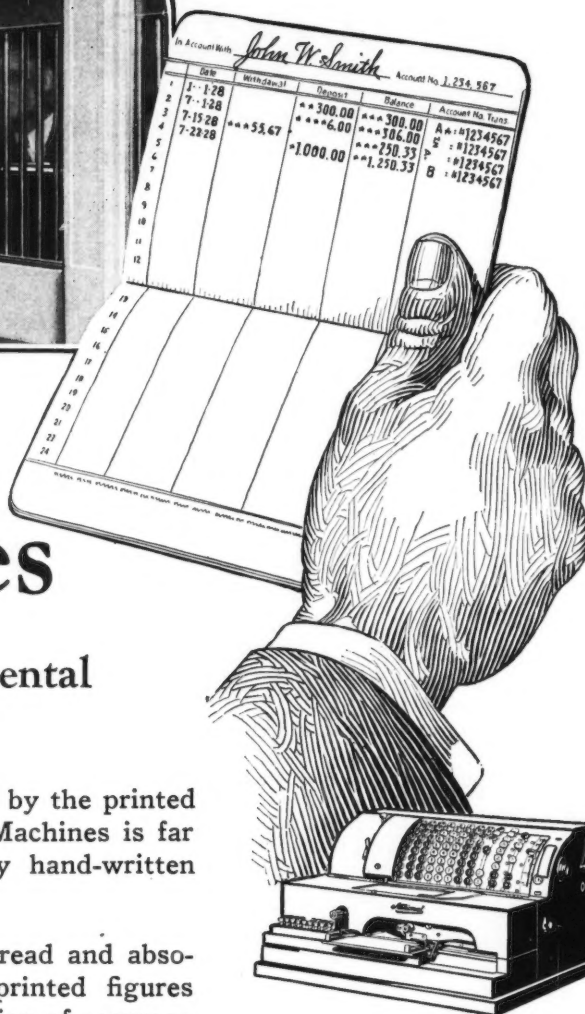
DODGE BROTHERS have 163 foreign dealers covering almost every country in the world. During 1927, this organization exported 32,480 motor vehicles. For the first five months of this year, exports of Dodge cars show a gratifying increase. At this moment, there are 250,000 Dodge cars on foreign highways from the Shetland Islands to Singapore, from Kamchatka to Madagascar. In every country of the world Dodge Brothers motor vehicles are doing the world's work.

This gives you some idea of the magnitude and stability of an organization that has a history of more than fourteen years of dependability and integrity behind it—and a man's size lifetime of further usefulness ahead of it.

DODGE BROTHERS CORPORATION

DIVISION OF CHRYSLER CORPORATION

DETROIT



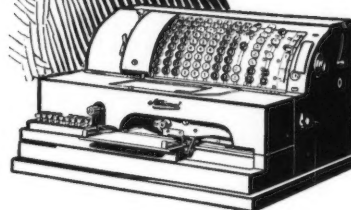
Printed Figures

Make favorable mental
impressions

The mental impression given by the printed figures of National Posting Machines is far different from that given by hand-written figures.

Neat, plainly printed, easily read and absolutely unchangeable, these printed figures give the depositor an impression of accuracy and protection together with confidence in the institution.

They provide a guarantee against entering the wrong amount, posting to the wrong account, or changing of an entry. National Posting Machines, because of the confidence they create in the depositor's mind, are a definite aid to increasing business.



The National Posting Machine for banks prints three records of a deposit or withdrawal at one operation. On the pass-book, ledger card and audit strip. All originals, all exactly the same. Many of the largest banks in the country are using this equipment.

The National Posting Machine FOR BANKS

Product of The National Cash Register Company, Dayton, Ohio

The Condition of Business

Usual Midsummer Quietness in Business Is Supported by Sound Underlying Conditions. Expected Improvement in Autumn Already Appearing. Money Rates Continue Firm But Banking System Is Not Extended. Stock Market Is Bullishly Inclined.

GENERAL business conditions are characterized by underlying soundness and, while rather quiet trade during July and August is to be expected, there are indications of an earlier than usual quickening which forecast active business this autumn.

Such changes as have occurred recently in one field and another have nearly all been in the direction of normal, toward better balance. Our security markets have slowed down and lost their feverish tone; they have taken their place among other factors after occupying the center of the stage earlier this year. Likewise the banking and credit situation has reverted to a state so ordinary as to almost seem uninteresting after witnessing the spectacle of 10 per cent call money, rapidly expanding credit and huge gold exports, all of which now are checked.

Manufacturing as a whole continues with little variation, slightly below last year to be sure, but equal or slightly better than normal considering seasonal and long-term trend. Steel mills enjoyed an excellent half year, although prices have tended to sag slightly. Automobile manufacturers achieved banner semesters and gratifying earnings except in cases where competition became excessive.

Balanced Prosperity

COPPER and zinc mining are above normal, but lead mining is contracted, as is anthracite and bituminous coal. Lumber and cement continue to give good accounts of themselves, but cotton, silk and wool, also shoes, show some recession. Crude petroleum and gasoline production are steadily working to a stronger position; tire manufacturers have increased sales but lost on the declining price of rubber.

Thus the sum total brings practically an offset among many lines and practically no change in others. Reports of earnings which are now coming to hand covering the first half year absolutely disprove the assertion often expressed that business in general has been poor.

Our country enjoys a state of moderate and soundly-balanced prosperity, which we have in these columns of the AMERICAN BANKERS ASSOCIATION JOURNAL so often claimed as the best brand of prosperity yet discovered. Year after year it has continued, its general direction little changed by the excesses in one industry or another that have eventually been brought back into line, its

movement little affected either by our hopes or fears. Its "reliability" is becoming surely established. And certainly a survey of fundamental conditions inspires confidence that future months will bring a maintenance of this record of progress.

Money Rates Remain Firm

WITH the Federal Reserve banks' increase of another one-half per cent in the rediscount rate during July for a majority of the regional banks, and similar action by the remainder expected in due course, money markets have continued to grow firmer.

While call rates have steadied down around 6 to 7 per cent after the spectacular 10 per cent rate over the mid-year, this should not mislead one into thinking that the credit situation has eased appreciably or that cheap rates will return in the immediate future.

These call rates contrast with 3½ to 4 per cent a year ago. Still more significant is the firming up in time money to 6 per cent compared with 4 to 4½ per cent last year, and commercial paper to 5½ to 5½ compared with 4 to 4½ per cent last year.

Bankers acceptances have again moved up fractionally from 4¼ to 4¼ for ninety-day bills and 5¼ to 5 per cent for six-month bills. The high rate for longer term money is especially significant and is the maximum since October, 1921.

The above rates, particularly in acceptances, are regarded as evidence that money is to remain firm well into the autumn, and the usual seasonal increase in agricultural and commercial demands is already developing.

Such a condition makes acceptances quite attractive for savings bank investment. Volume of acceptances outstanding, as reported monthly by the American Acceptance Council, has continued above \$1,000,000,000 so far this year, while in 1927 it averaged around \$750,000,000.

Banking System Is Not Extended

THE banking attention has been centralized on the brokers' loan situation, but recent changes have brought little liquidation further than accompanied the break in the stock market during May and June. The total volume of loans made by and through New York banks ranges slightly above the \$4,000,000,000 mark for the fifth successive

month and appears to be stabilized, for the time being at least, on this new level. This is approximately \$1,000,000,000 higher than one year ago.

In view of the responsibility that is so often attached to the New York banks for regulating the amount of call money available, it is significant to note the large increase in call loans that has come during the year from private banking houses, corporations, foreign lenders, etc., which are not subject to supervision by the Federal Reserve authorities.

At the beginning of the year the total call and demand loans to brokers was made up as follows:

	Dec. 28, 1927	Per Cent
New York banks...	\$1,373,536,000	37.0
Out-of-town banks...	1,338,291,000	36.0
Account of others...	1,005,795,000	27.0
Total	\$3,717,622,000	100.0

Since that time the New York banks have curtailed their own loans by \$550,000,000, but out-of-town banks increased by \$113,000,000 and "all others" increased by \$803,000,000, resulting in a net increase of \$446,000,000, made up as follows:

	July 25, 1928	Per Cent
New York banks...	\$823,516,000	19.7
Out-of-town banks...	1,551,753,000	37.0
Account of others...	1,808,645,000	43.3
Total	\$4,183,919,000	100.0

The Federal Reserve Bank position has strengthened during the month with the ratio of total reserves to note and deposit liabilities combined up around 70 per cent again, compared with a high of 75 in March and 80 per cent one year ago.

The present relation of gold holdings, bills discounted for member banks, open market purchases, securities owned and member banks deposits is in a strong and entirely satisfactory position.

The statement of reporting member banks shows little change. Secured loans are, roundly, \$700,000,000 above a year ago, commercial loans \$500,000,000 higher, and investment holdings \$500,000,000 higher.

Combined loans and investment holdings represent an expansion of about 8 per cent in the last twelve months, which is hardly more than would be expected from normal growth and would never have brought on tight money but for the heavy gold exports (over \$400,000,000), which occurred at the same time and have now practically ceased.

Agricultural Outlook Improving

COLD and wet weather during the spring is now showing its effect in the crop reports, but it is encouraging that mid-summer estimates are being revised upward as a result of the splendid growing weather of June and July. Following are the July estimates of the Department of Agriculture, also the actual harvest in 1927:

000s Omitted			
Bushels	1927 Actual	1928 Estimate	Per Cent Change
Corn	2,876,000	2,735,617	-4.9
Winter wheat...	552,000	543,782	-1.5
Durum wheat...	76,000	75,532	-0.6
Other spring			
wheat	243,000	182,623	-24.8
All wheat.....	872,000	799,937	-8.2
Oats	1,195,000	1,320,097	+10.5
Barley	266,000	303,000	+13.9
Rye	58,600	39,300	-33.0
Flaxseed	26,600	21,500	-19.2
Rice	40,200	35,400	-11.9
Sugar beets, tons	7,730	6,760	-12.5
Tobacco, lbs.	1,238,000	1,312,000	+6.0
Hay, all tame,			
tons	106,200	84,400	-20.5
Hay, wild, tons.	17,300	.....	...

It will be observed that the yield of corn, although hampered by a late start, is reckoned at only 4.9 per cent under last year. Abundant rains in the corn belt during the past month, coupled with plenty of hot weather, have effected a remarkable improvement in Iowa, Illinois, and Missouri as well as surrounding states where corn is a secondary crop.

Winter wheat production turned out about the same as last year, but spring wheat has been backward and will be somewhat below 1927, although not so much as at first thought.

Among other crops, oats and barley are estimated to give larger yields than last year, as is tobacco also. Rye, flaxseed, rice and sugar beets, also hay, are expected to be less than last year.

Machine tool buying, a valuable barometer of trade, held at a high rate in July, according to the *Iron Age*. "The past few weeks have been featured by large buying by the Wright Aeronautical Corporation and the General Electric Company. In Chicago, orders from the implement and tractor industry continue to make up a goodly proportion of current business.

"In the healthy demand for machine tools neither the railroads nor the automobile companies, which normally contribute a good share of such business, are important buyers."

Railroad Earnings Down

DECLINING volume of railroad traffic and earnings this year is a topic that is being discussed with concern in all parts of the country, not only by railroad men but by investors and business men generally.

Last month we gave the volume of freight-car loadings by months, running through the first half of the year constantly below 1927, but with a narrowing margin. At the middle of the year a turn came and outlook is for autumn volume to run better than 1927.

The Interstate Commerce Commission's tabulation of earnings for the

first five months for 169 Class I roads and 16 terminal and switching companies shows a decline of 3.37 per cent in freight revenues and 8.42 in passenger revenues. Total expenses were reduced 4.76 per cent and net operating income was 2.33 per cent lower.

becoming an industry of no small importance.

Activity in the stock market during the past month has been somewhat below normal, but the quietness has been accompanied by a strong undertone, and quotations tend to work higher. Feb.

Class I Railroads—000s Omitted

	1927	1928	Per Cent Change
Five months			
Freight revenue.....	\$1,881,842	\$1,818,397	-3.37
Passenger revenue.....	392,870	359,759	-8.42
Total operating revenue.....	\$2,507,496	\$2,404,383	-4.11
Maintenance of way.....	344,191	329,037	-4.39
Maintenance of equipment.....	519,662	489,132	-5.89
Transportation expenses.....	911,085	863,413	-5.22
Total operating expenses.....	\$1,922,272	\$1,830,580	-4.76
Accrued taxes.....	153,247	150,325	-1.91
Uncollected revenues.....	648	552	-14.80
Operating income.....	\$431,329	\$422,926	-1.94
Net operating income.....	385,071	376,028	-2.33

Motor trucking continues to take freight handling away from the railroads, while automobiles take away passenger business, especially on short hauls. Roads in the Middle West are running a combination baggage-passenger motor car where they formerly ran trains of several coaches. Their tracks are paralleled by paved roads, built partly from railroad taxes, over which motor cars carry freight and passengers on faster schedules than the trains.

Canada approaches the autumn season with statistics of building permits, iron and steel production, employment, trade and bank returns, all showing an advance upon the prosperity of 1927. This is particularly gratifying in view of the adverse tendency in the United States.

Prospects for a satisfactory wheat crop have seldom, if ever, been more favorable. In Ontario the hay crop is expected to be short and light in yield, but in the Maritime Provinces the prospects for a large crop are bright. Fruit trees in Ontario, British Columbia and the Maritimes have suffered comparatively little injury from the wet weather in early spring, and it is estimated that the fruit crop will be in excess of last year's.

Expenditures of tourists from the United States is about fifteen times as large as before the war. About 3,000,000 cars cross the line from the United States during the year, and 8000 to 10,000 of these cars remain more than a month. Aside from the direct expenditures of these tourists, Canada also receives the less tangible benefit of having her problems better understood abroad, and in the long run there can be no doubt that such a number of visitors will tend to encourage immigration and the inflow of foreign capital for industrial enterprises.

Catering to those who vacation in the Rockies, along the lakes and rivers of central Canada, or at the seashore, is

ruary witnessed the low point of the year, from which the spectacular rise developed until the middle of May, carrying industrial "averages" up about forty points and rails twenty points. A large part of this gain was wiped out by the breaks in late May and June, but since then the tone has been distinctly better.

Many investment experts point out that stocks cannot be "shaken out" by short selling operations, and that recent quietness indicates genuine "accumulation" preparatory to another upward movement later in the year. That the public is disposed to hold on to stocks certainly demonstrates that general opinion remains bullish regarding business improvement this fall.

Activity in the bond market has declined to the lowest for years as a result of the tight money rates and uncertainty in stocks. Many recent issues are still partly unsold in the hands of syndicates, which condition ties up capital and tends to prolong the tight money.

Prices have not yet begun to recover appreciably, and, measured by the *New York Times'* average of forty domestic bonds, stand around the current year's low of 89.76, or nearly four points below the 1928 high in May.

Forty foreign government issues, where the improving credit standing of the borrower tends to offset the dearer money, stand midway between the year's high of 107.42 in April and the low of 105.51 in June.

July brought the fewest number of new issues for several years. Two of the larger were \$23,000,000 State of Rio Grande do Sul, Brazil, and \$15,000,000 State of Sao Paulo, Brazil, both external sinking fund 6s due in thirty years and priced at a discount to yield the buyer better than 6 per cent.

Following are all the issues of \$5,000,000 or more offered publicly during the month:

Major Financing in July

Issue	Amount	Rate	Due	Price	Yield
Rio Grande do Sul (Brazil) ext. s. f.	\$23,000,000	6	1968	99 1/4	6.40-7.53
Sao Paulo (Brazil) s. f. ext.	15,000,000	6	1968	94 1/2	6.375
State of Illinois.....	13,000,000	4	1949-58	....	4.125
Transcontinental Oil Co. 1st s. f.	12,000,000	6 1/2	1938	100	6.50
General Water Works Corp. 1st & col. tr. A	5,600,000	5	1943	90 1/2	6.00

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Do You Follow the Rules?

BY N. W. KINDGREN

WE know of a banker so conservative in his policies that he refused to sanction a loan of \$50 to an unfortunate person, even though a man of some means, a big depositor, offered to endorse the note.

Not always can a banker guide himself wholly and without qualification by rules. If the standard of safe conduct he has set for himself includes the rule never to lend to any one unless security to the value of 100 per cent and above is available and offered, he may suffer by seeing his competitor reap the fruits of business increase. Rules are very necessary for the person who depends on superior officers for guidance. But sometimes in the case of an executive, they may be temporarily suspended.

WHEN the paying teller refuses to cash a check for \$10 drawn on a bank in Alaska, he is not required to exercise any judgment as to a policy of advancing money that will take at least thirty days to collect. He simply obeys the rule in such cases. On the other hand, when J. P. Morgan the senior was willing as he once testified to loan a man a million dollars on character alone, he was not even remotely following any set rule, and yet his judgment may be every bit as good, if not better than that of the teller.

If the banker of whom we first spoke had decided that the possible (although improbable) loss of \$50 was as nothing compared with the loss of an account on which he could earn three times that amount every month, we would have credited him with using good judgment. As it was, he advertised himself as a man of unyielding principle, who would abide by his self-imposed rules, come what might. And in this case it did not work out very well, for he lost that good account.

A bookkeeper, who by the too strict adherence to rules lost whatever chance he had for promotion, presents an interesting case. This happened in a small town bank, where the gap between bookkeeper and cashier is not so large but that it can be bridged by a single move and the bookkeeper was under consideration for promotion to the office of cashier. For some years a customer had carried with his bank two accounts, one a personal and the other a trustee account. During an extended vacation trip, this depositor kept on checking against the personal account until the balance dwindled down to next to nothing. When at last a check for \$25 came in, the balance on the books showed only \$10. While the bank did not tolerate overdrafts, the fact that this customer had a deposit of \$3,000 on the trustee account did not deter the bookkeeper from sending the check back, and it was protested. Taken to task for his ill-advised action, the

bookkeeper sought to defend himself by citing the rules of the bank which specified that checks should be paid only where the deposit was sufficient.

"BUT," said the president, "you knew of the other account, certainly?"

"Sure. But had he wished to draw on that account, he would have signed the check 'Trustee,'" replied the untactful one.

Whether the bank lost the account or not is a matter of small importance. The point of real significance is that the situation involved the temporary rescinding of a rule which had as its object protection against unscrupulous depositors.

This bookkeeper has suffered the consequences of the too rigid application of rules, for although he can always be depended on to carry out instructions to the letter, the very fact of his being conscientious to the least fraction of detail has forever barred him from the ranks of the executive.

Here is another incident. On a certain day, a half dozen checks were presented through the clearings, bearing a signature that was entirely unfamiliar to the bookkeepers. The very fact that several checks rather than one came in at the same time made the affair of more than ordinary interest. The president of the bank was consulted. After examining the checks, taking due notice of endorsements and such details as dates and amounts, he ordered that the checks be paid. "Charge them to my account, and if any more come in let me see them," he ordered.

ABOUT a week later, the mystery was cleared up. The maker of the checks had returned from a short trip. Before leaving, he had instructed his young daughter to issue several checks in payment of some bills on hand, and in his hurry to catch the train, he had overlooked the fact that she had used checks on a bank where he did not have an account. The president suspected that something along this line had happened, and although he was not positive as to signature, the name was known to him as belonging to a man of means, whose account he had often solicited. In the ordinary course of events he probably never would have received a cent deposit, but the records show a \$30,000 deposit which the depositor laughingly referred to as a conscience fund. If we were writing fiction, we would add that the young lady received a present the following Christmas consisting of a deposit book with an entry of \$100, a check book with her name neatly engraved on each blank, and a card bearing the name of the banker. Instead she may have been reprimanded

by her father for jeopardizing his business standing by bringing to the house, for business college purposes, checks on banks other than his own.

The following incident may serve to illustrate the futility of depending on rules, necessary as they are in ninety-nine cases out of a hundred. A collection item was paid for with a check on another bank. On the same day, our correspondent telegraphed asking for advice by wire whether or not the collection had been made. We had the check, and to all outward appearances the collection had been paid. Still we had received no cash. A very proper procedure would have been the sending of the check to the drawee bank asking for certification or a cashier's check. In this case, we relied on the maker of the check, who enjoyed a good reputation, and decided instead to answer the telegram at once, advising actual payment. The following morning, we learned that the bank on which the check was drawn had been closed by the banking department. We had no advance information about this bank. The maker was in this case no worse off for our holding his check than he would have been if we had secured immediate payment, and as soon as he recovered from the shock, he redeemed it in cash.

THE banker may draw up any number of rules, but in the matter of enforcement, situations will arise demanding exemptions. The bookkeeper who knew the rule concerning overdrafts might in a certain instance have paid a check drawn in excess of the amount left on deposit. The president who paid checks drawn by a non-depositor acted contrary to the rules he had imposed on his employees. The bookkeeper suffered on account of strict compliance with the rules. The president gained because he ignored them.

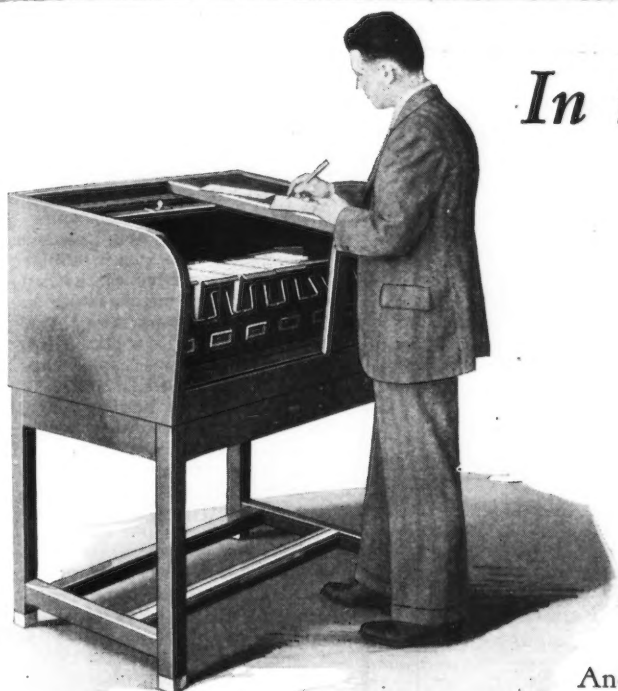
New Books

HOW TO TALK. Meeting the Situations of Personal and Business Life and of Public Address. By John Mantle Clapp and Edwin A. Kane. Published by the Ronald Press Company, New York. Price \$5.00.

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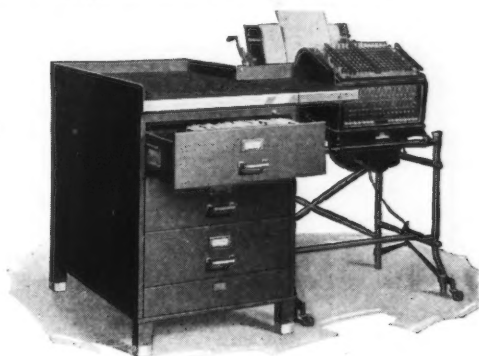
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Building and Loan Competition

(Continued from page 129)

ings, but it is equally true that the present over-abundance of funds is leading them out of the home-building field, and the banks have a difficult job to meet this competition. Some banks, although not many in number as yet, are adopting building and loan plans, and are financing homes on installment plans, but it is slow, because the home-buyer can get started with a much less down payment in an association than he can in a bank. The associations are aware of this prospective competition. They have already felt the influence of the extension of time limits afforded by the McFadden Act, and the entrance of insurance companies into the field by lowering their interest rate.

Meeting Competition

IN Wisconsin, one bank is meeting this competition by the use of its savings department. It makes loans up to 65 per cent of the value of the property, charges no fees, but requires the borrower to make regular monthly deposits in savings account. Every six months the balance is transferred to an endorsement on the principal. The amortization of the debt is several months earlier than the building and loan plan, and the interest figures about 6.3 per cent. The reduction of the principal indebtedness periodically in contrast to an ultimate set-off of shares against the debt is attractive, but here again the National Bank Act restricts in fixing the maximum aggregate of real estate security.

Another institution in the same state proposes to lend up to 65 per cent of the value, and in drawing up the papers, executes one note for 50 per cent of the value, and the other note for the remainder. Both are secured concurrently by the mortgage, which so specifies. The first note is sold to a trust company which it controls, and which in turn places these notes as collateral to trust agreements which are sold to their clientele (practically as Certificates of Deposit). The other note is amortized first, by monthly deposits in special savings accounts. The rate on the trust agreements is 5 per cent, and the rate to the borrower is a little over 6 per cent. This plan meets the competition of fully paid shares as well as competition in the installment shares.

In a number of the states, the associations are permitted to invest in second mortgages. However, it is not general, but it does usually provide the association with a much wider investment field. Most states do not fix any ratio as to the amount of fully paid shares an association may issue in comparison with the book value of the installment shares. Strictly, the installment shares represent more nearly those for whom associations were created. The paid-up shares are investments—they correspond in many practical respects to the certificates of

deposits of banks, but with some marked differences.

Advertisements Confuse

A BANK certificate of deposit has a cash reserve maintained for its redemption. It is usually paid on presentation, although notice may be reserved, and the interest rate may be from 3 to 4 per cent, but the paid up shares of an association are not supported by a cash reserve, and, while the by-laws usually provide for notice of withdrawal, they are practically paid on demand, and the rate of dividends exceeds those of bank certificates of deposit from 1 to 2 or more per cent.

Further, the advertising of a great many associations is such as to create the impression that the rate of dividends is guaranteed on the shares just as the interest is fixed on certificates of deposit. The shareholders do not seem to know that the associations can force them to file their requests for withdrawal in turn, and use only one-half or some other fraction of the monthly dues toward their retirement. This form of competition is very difficult to meet. It has been met in some states by trust company rates and agreements, and in others, by a fusion of the bank and association interests. In one state the banks have obtained control of a large number of their associations.

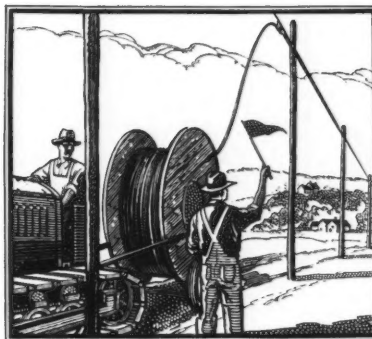
There has been competition with banks for some time, but in the last several years, the competition of the individual association has brought about a number of changes. One of these is the tendency toward the elimination of fees—membership and withdrawal—fines, and penalties.

Banks Handicapped

WITH this has come a lowering of dividend rates and rates to borrowers. The solid, conservatively managed associations have read the handwriting—they know that when the money markets are glutted, and prime securities produce smaller and smaller yields, that capital will invade the real estate field, and they will have difficulty in getting good loans, and that they will be offered more money for fully paid stock than they can invest. The tendency will be for lower rates and dividends, and to offset this, they will make concessions by requiring no fees or penalties. The banker, however, must meet the same situation with the added handicap, so far as associations are concerned, of the maintenance of a cash reserve.

In the payment of dues there is a wide disparity. A good many associations permitting the irregular payment of dues also permit the shareholder to withdraw from time to time as in a bank. Some associations provide that every dollar on deposit entitles the owner to a one-hundredth interest in a fully paid share. Other associations which do not permit actual withdrawal of dues paid in, provide that the association may lend up to 90 per cent of the book value of the shares, and even if the association were to provide that shares must be

Carrying the wires into new fields of opportunity



THE old frontiers are no more. Deserts are peopled, distances have dwindled. The nation is still a long way from being a continuous community—but the lines of the Bell System are doing a great deal to make it a neighborhood of continuous oral contacts. And as long as people wish to talk, the American Telephone and Telegraph Company investment is safe.

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BANK OF ITALY

NATIONAL TRUST & SAVINGS ASSOCIATION

June 29, 1928

RESOURCES

First Mortgage Loans on Real Estate.....	\$225,326,291.70	
Other Loans and Discounts	185,217,189.62	
		\$410,543,481.32
United States Bonds and Certificates of Indebtedness	158,484,951.02	
State, County and Municipal Bonds.....	42,898,311.43	
Other Bonds and Securities	28,921,012.21	
Stock in Federal Reserve Bank.....	2,850,000.00	
TOTAL U. S. AND OTHER SECURITIES.....		233,154,274.66
Due from Federal Reserve Bank.....	34,260,085.34	
Cash and Due from Other Banks.....	69,027,847.45	
TOTAL CASH AND DUE FROM BANKS.....		103,287,932.79
Banking Premises, Furniture, Fixtures and Safe Deposit Vaults (289 Banking Offices in 165 California Cities)	25,945,668.32	
Other Real Estate Owned	1,767,937.07	
Customers' Liability under Letters of Credit and Acceptances	24,098,002.06	
Interest Earned on Bonds and Loans.....	5,549,808.48	
Other Resources	328,419.71	
TOTAL RESOURCES.....		\$804,675,524.41

LIABILITIES

DEPOSITS: Savings	\$445,140,320.66	
Commercial	221,803,874.60	
		\$666,944,195.26
Letters of Credit and Acceptances.....		24,071,372.06
Circulation		5,883,750.00
Dividends Unpaid		3,017,202.59
		699,916,519.91
CAPITAL	\$ 50,000,000.00	
SURPLUS AND PROFITS.....	54,759,004.50	
INVESTED CAPITAL		104,759,004.50
TOTAL LIABILITIES		\$804,675,524.41

All charge-offs, expenses and interest payable to end of half-year have been deducted in above statement.

National Bankitaly Company
Identical in Ownership and Management

Combined Capital Investment
of both Corporations is over
200 MILLION DOLLARS

NUMBER OF DEPOSITORS 1,347,357

withdrawn after notice, the right to borrow on the shares is a practical nullification. These installment shares, known as free, running, or what not, are savings accounts in any analysis.

Since the passage of the McFadden Act, and the entry of insurance companies and other lending agencies into the building and loan field, the associations have come to a realization that they are in competition. Heretofore, the banks offered little or none, but now, the associations must fight for investments, not only among themselves, but against others. The rates offered in competition are lower, the payments made are applied on principal, and the result is that many borrowers from associations are re-financing their loans through competitive agencies, and the cream of the association loans is being lapped off. To offset this, some associations have adopted sliding interest scales. When the loan shows a 50 per cent equity, the rate is dropped either a half or one per cent, when it is still further reduced to a third or a quarter, another half per cent reduction is made. The competition for banks in this field becomes more difficult, because they can offer no sliding scale.

For a good many years, the bankers have been vocal in their protests against building and loan competition, but there is an appalling lack of understanding of building and loan theory and practice. The banks know they have competition, but do not know enough of their competitor or his methods to enable them to meet the competition aggressively. The various state codes regulating associations are far behind the development of the associations, and it is my idea that the banker and the association must meet on common ground, and in a sincere and straightforward manner, discuss and understand each other, and then undertake such revision of laws as will enable them both to proceed side by side in their businesses. Each is a recognized necessity, and with fuller understanding and honesty, the financial field can be cultivated and harvested by both.

German Transfers Bugaboo

(Continued from page 134)

With the money received from taxes, it buys exchange for the foreign debt, and the home-produced goods which natives have been unable to buy are bought instead by the creditor countries. The supplementary export thus created brings back exchange to the debtor country, and the returned exchange is available for further transfers for service of the foreign debt.

No shortage of exchange can ever ensue as result of this payment process. A public debt abroad is payable in reasonable installments. The stability of the currency at par insures a supply of exchange for the first installment,

and the process described insures a supply for the succeeding installments. The process is revolving. The transfers question assumes wrongly that the process is cumulative; that is, that there is an increasing depletion of the stock of exchange, a "depletion of reserves" in the Central Bank, as Mr. Auld puts it. This assumption is contrary to both theory and experience. The payment of the debt has a cumulative effect, but it is not upon the exchange market; it is upon the stock of goods. While the currency comes back to the debtor country, the debtor country loses every year a certain quantity of unpaid-for exported goods. Debts abroad are paid in goods and not in currency. Currency is merely the circulating medium by which the goods are measured.

This rule applies not only to debts abroad. It applies to all kinds of export of capital, in particular to export of capital for loans. The United States in the last three years has exported about a billion dollars of capital to Germany in the form of loans. But Wall Street has never needed to ask itself whether the dollars could be "transferred," whether they would create an equivalent export of American goods or whether they would return to America. All Wall Street needed to do was to make sure that it had the necessary dollars; the rest would follow automatically. Now the Dawes Plan assumes that Germany will have the necessary reparations marks. The American export surpluses in the past three years prove that Wall Street was right. The exported loan dollars came back to the United States; in fact, a great part of them remained in the United States and were used by the German borrowers for payment of American goods.

Russia's pre-war experience with her debt was precisely the same as America's post-war experience with loans. She simply exported capital for service of her debt, and did not trouble to ask herself whether she would be able to export goods or whether the exported exchange would return to replenish her state bank reserves. She simply paid, just as the lender country, America paid, and just as Germany has paid so far. She had no transfers question.

No Trouble Experienced

RUSSIA'S records throw an instructive light upon the transfers question. They show that export of goods equivalent to the debt service was not only possible but was even easy. In "Russian Finance under Tsarism," Prof. A. S. Bagayeff declares that whenever the Russian government had the necessary rubles wherewith to pay England and France, exports almost rushed themselves out and replenished the depleted exchange reserve. The tax collecting, he says, temporarily contracted the currency circulation so much that export was accelerated in advance—"exports, in fact, tended to get ahead of the debt payments so that the supply of exchange necessary for the debt service was available before we needed to buy exchange."

THE GANG'S NEXT JOB

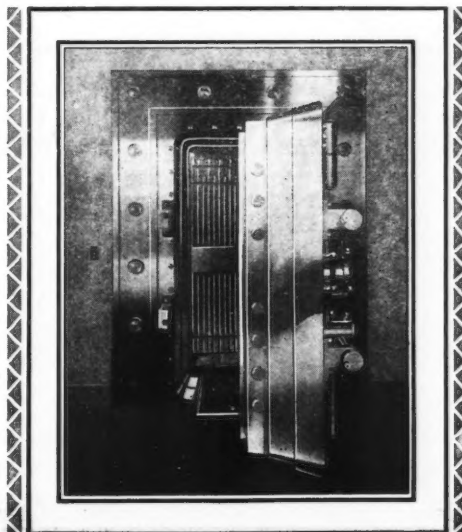


what bank will it be? In the foul stench of some tenderloin den, thugs are laying their plans. East — West — North — South — the world won't know until the morning after. The chances are the attempt won't be on a Diebold Burglar Proof Vault Door; but, if so, it will be another failure.

Our Thermatic Locking Device is one of the reasons, because embedded in the steel it jams the locking bolts immediately when heat from a cutting torch strikes the door. Insurance Underwriters grant a 10% Burglary Insurance Rate Reduction on doors so equipped—that's how effective it is. Specify this exclusive Diebold feature as well as our Daylight Locking Device when ordering Diebold Bank Vault Doors.

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Represented in Leading Cities in U. S. A. and Canada

DIEBOLD SAFE
ASK YOUR  **BANKER**



Where Banks Deposit Money

One bank out of
every six in the
United States has
money on deposit here

**CONTINENTAL
NATIONAL BANK
& TRUST COMPANY
OF CHICAGO**

In another passage Professor Bagayeff states that "with the exchange question we never had the least difficulty; the only difficulty we had was that occasionally we had not sufficient rubles wherewith to buy exchange."

This agrees with the experience of the Agent General for Reparations, who in his last annual report shows that he had committed himself to making transfers before the marks with which the exchange was to be bought had been paid to him by the German government. He could transfer, that is, more rapidly than he could pay for transfers. The supply of exchange outdistanced the supply of marks.

The notion that customs tariff obstacles will check German exports and will therefore retard the inflow of exchange will not bear examination. This notion, like many economical novelties, is applied exclusively to reparations, though reparations are nothing but capital export. When the United States proposes to export loaned capital to Germany, no one dreams of asking whether Germany's tariff will make it impossible for the United States to deliver equivalent goods. Wall Street simply pays over the dollars, and the equivalent supplementary export is in due time registered in America's trade returns. Were German borrowers told by Wall Street that they could not have loans because their tariff would make it impossible to transfer the loaned money, they would laugh. But things that are admittedly absurd and incredible when applied to ordinary export of capital are popularly regarded as reasonable and credible if they are applied to reparations.

The Tariff Element

TARIFFS restrict trade, but they restrict it in both directions. If Allied tariffs keep out ordinary German exports, Germany will buy correspondingly less goods from the Allies. But while the volume of trade in both directions will decline, the tariffs will neither hinder nor create an export surplus. The Allies can raise their tariffs so high that they will keep out all ordinary German exports, in which case Germany will buy nothing from them. But they cannot keep out German reparations exports unless they relinquish altogether their claim to reparations and refuse to accept the mark reparations payments.

This again is not theory. It can be proved by German trade figures for a period since the Dawes Plan came into force. Germany, it is known, has not had in general export surpluses during the past three years, and the reason is that she borrowed some 9,000,000,000 marks during the three years in long and short term loans. But when she temporarily ceased borrowing she had no difficulty whatever in creating an export surplus for reparations. That was in 1926. In 1926 Germany's interest rates were low and were falling. Including the reparations payments, she exported more capital than she imported. She borrowed some 1,400,000,000 marks from abroad, mainly from Amer-

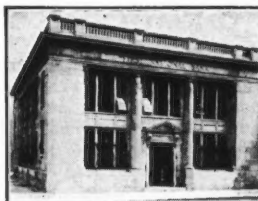
ica, but she lent heavily to Russia, bought back her own bonds in Wall Street, and in addition exported capital for reparations. The official foreign-payments balance shows that her net capital export was considerable. The result was that, while her imports totaled 9,695,000,000 marks, her exports (including the reparations deliveries in kind) totaled 10,583,000,000 marks. That is what every competent authority expects to see repeated the moment Germany ceases borrowing from the United States. She will have an export surplus, which will bring back by the revolving process all exchange that is exported for payment of the reparations debt. She will lose only goods.

Still more convincing is Germany's record during the first half of 1926. In that period there was a net export of capital even without counting the reparations payments. The official foreign-payments balance shows that capital export exceeded capital import by 1,087,000,000 marks. The excess of capital export was made up of 559,000,000 marks net loans and credits to abroad, 487,000,000 marks reparations payments, and 41,000,000 added to currency reserves, which in its effect is the same as capital export. In the same six months Germany received net for services, etc., 40,000,000 marks, and she had an export surplus of 1,047,000,000 marks, together totaling 1,087,000,000 marks. This is a new concrete proof that the moment Germany ceases to borrow from abroad she will create an export surplus necessary for reparations payments without any difficulty. It fully concurs with the records of pre-war Russia and of other debtor countries in showing that the payment abroad for debt automatically creates an equivalent export, brings back the lost exchange, and so provides exchange for new payments.

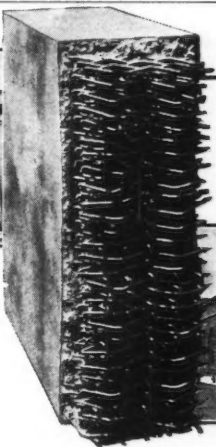
Another Mare's Nest

MANY more arguments of a destructive kind might be brought against the transfers question. But from whatever viewpoint the question is considered, the conclusion is the same, that there is no prospect whatever of a failure of German exports and of a consequent shortage of exchange for payment of foreign debts. The transfers question, in fact, appears to be as much a mare's nest as are the priority and the exchange rationing questions. There is no reason why American capital should continue to harbor fear on the score of any of the three. The only vital matters are that Germany should remain internally solvent and that her mark currency should remain sound. On these two points even those persons who believe in the transfers question are satisfied.

The transfers question must be relegated to the limbo of fallacies—very considerable in number—which for some inexplicable reason have grown up around reparations, but which would deceive no one were they propounded in connection with any other class of public debt abroad or with any other class of capital export.



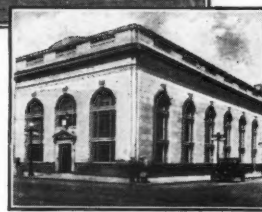
Architect Emmet E. Bailey



Architects Carrere & Hastings



Architect Fred Organ



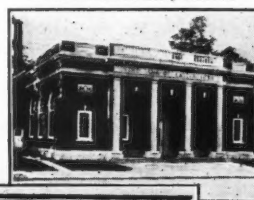
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PER DOLLAR invested, Steelcrete Armored Bank Vaults provide greater protection than can be obtained with any other system of vault construction on the market today! It is for this reason that the Federal Reserve Banks and Branches in New York, Baltimore, Buffalo, Jacksonville, Birmingham, Nashville, New Orleans and Oklahoma City as well as village and community banks throughout the United States have accepted and installed the Steelcrete system.

Steelcrete Armor Mats, composed of thousands of heavy strands of steel interlocked and thoroughly imbedded in concrete, comprise the Steelcrete System. The Steelcrete Armor Mats go inside the concrete shell of the vault and cannot be seen. The saving in space is a principal consideration. The combination of Steelcrete Armor Mats and concrete defy torch, drill and blasting and make the valuables in your institution safe against mob or burglarious attacks.

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Architects Bley & Lyman



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Offers a Complete New Plan for Safe Deposit Vault Operation

This new plan is the only plan available today that will give full protection against—

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The Plan provides—

Proper locks

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A simple method of operation

Mechanical coupon-booth protection

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overwhelming evidence that this new plan will enable you to present.

The time to investigate this new Protection is *NOW*, before your vault specifications are written.

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Condition Report of State Banks

THE trend toward fewer banks continues. The past year saw a decline of 632 in the number of state banking institutions in the United States although the total resources of these banks showed a growth of more than \$1,800,000,000.

Conditions of the state banks of the country are reported by the National Association of Supervisors of state banks in an annual statement covering all banking institutions under state control. The statement is compiled from reports furnished by the heads of the various state banking departments.

Commenting on the statement R. N. Sims, secretary-treasurer of the association, describes the figures as very gratifying and as reflecting, on the whole, a healthy condition of the banking institutions of the country.

THE following is a comparison of the totals of items covered in the statement of condition of the state banks, compared with last year, based on the average dates of Feb. 28, 1928, and March 23, 1927.

Except for the drop in the number of state banks, the only item in the statement to show a decline from a year ago is the deposits, including certified and

cashiers' checks, which fell off by \$116,589,703.39. The increases were \$37,668,454.12 in capital, \$142,623,505.02 in surplus, \$11,721,994.40 in undivided profits, \$192,013,953.34 in capital, and surplus and undivided profits, \$399,328,016.61 in loans and discounts, \$733,726,637.72 in bonds, stocks and securities and \$1,821,122,614.26 in total resources.

Combining the reports of the state banks with the results of the February call issued by the Comptroller of the Currency it is shown that on Feb. 28, 1928, there was a total of 26,699 banks of which 18,965 were state banks and 7734 national banks, and in round numbers a total capital, surplus and undivided profits of \$8,165,241,004, total deposits of \$56,714,516,861, and total resources of \$69,439,471,224. Total deposits of all banks were \$1,140,283,297 above the previous high record of March 23, 1927, and the total resources \$3,693,662,613 above resources of that date.

The record of the past nine years for all banks in the United States shows increases of \$2,902,100,327 or 55 per cent in capital, surplus and undivided profits, of \$19,156,829,849 or 51 per cent in deposits, of \$22,674,245,388 or 48 per cent in total resources and a decrease of 2114 in the total number of banking institutions in the country.

	1928	1927
Number of institutions	18,965	19,597
Capital	\$2,184,487,497.14	\$2,146,819,043.02
Surplus	2,091,822,178.98	1,949,198,673.96
Undivided profits	462,974,328.31	451,252,333.91
Capital, surplus and undivided profits	4,739,284,004.43	4,547,270,050.89
Deposits	34,435,434,860.78	34,562,024,564.17
Loans and discounts	19,374,343,741.27	18,975,015,724.66
Bonds, stocks and securities	10,644,546,769.40	9,910,820,131.68
Total resources	\$41,865,784,224.54	\$40,046,661,611.28

State Presidents' Views on Chain Banking

CHAIN banking has become the topic of the day in banking circles. It represents the banking phase of the general trend of business toward consolidation and central control of great enterprises. Here are the views of presidents of State Bankers Associations as given at their conventions:

WALTER F. HANSEN, president, Idaho Bankers Association: "Chain banking is here to stay. Big business is popular in the United States today and few other businesses lend themselves to the big business idea, as does the banking business and through the lately developed share ownership of a larger group of people it will grow and prosper. The public is to an ever-increasing extent becoming interested in big business through stock ownership, and realizes that when ably directed, larger institutions can give greater security and better service through utilization of greater executive talent, which naturally flows to the companies who are able to command such services."

J. W. SPANGLER, president, Washington Bankers Association: "Bankers have never been leaders in advanced business thought or practice, which, in view of the value of conservatism in their line, is logically accounted for. Conservatism and voyaging in new and comparatively uncharted waters are inharmonious. It is therefore not strange that banking should be the last to follow the tendency of the merchandising day in the direction of merging smaller units into one, or into a unified control substantially resulting in branch banking. The past few months have witnessed a regional movement in this direction, and while as a body the banking profession has opposed branch banking either as such or through centralized control, it is by no means certain that such practices in banking are illogical or transitory. Indeed, when we witness the passing of some of our most conservative institutions into organizations representing such centralized control, our most serious consideration is challenged, and we are convinced that some fundamental changes are occurring in banking practices."

KEITH POWELL, president, Oregon Bankers Association:

"Does branch banking, or chain banking offer the combination of adequate banking facilities for our smaller communities with the necessary stability of larger and more responsible organizations? Many think it does. Two years ago, yes, even one year ago, mere mention of branch banking in Oregon would have been anathema to our ears. Today we can not ignore it. The past few years have brought a remarkable development in branch and chain operation in nearly every field of business, and its application to banking has been highly spectacular and—apparently—successful. Chain banking—with us—however, is in its infancy and must still prove its case."

RALPH B. HARDACRE, president, California Bankers Association:

"Volume production and increasing competition have emphasized the importance of analyzing the distribution problem and reducing distribution costs. The chain store growth is only one phase of the newer distribution. The past year has developed 'merchandise production,' which is adjusting production closely to contemplated demand rather than manufacturing in huge quantities to minimize production costs and then forcing the distribution of this large volume."

League Island

(Continued from page 137)

top, the concrete mixing plants, derricks, cranes and chutes all help to heighten the impression. This drydock will accommodate any ship that can pass through the locks of the Panama Canal; that is, a vessel 1000 feet in length, and 110 feet beam.

Still farther to the west are the new steel shipways, as large as any of their kind in the world, intended for the building of great battle cruisers.

An interesting naval novelty which was built here in recent years was the first craneship, a huge floating workshop, which formerly was the old pre-dreadnaught Kearsarge, pride of the navy during the Spanish War period.

Perhaps one of the most impressive sights of the yard today is the vivid reminder of the war days presented by the ninety destroyers, many with records of service in the North Sea and the North Atlantic, which lie at anchor, lashed together in precise rows in the "back channel." They are not quite the ghosts they seem, however, for the ammunition and all removable equipment of this decommissioned flotilla is stored ashore, tagged to show from which ship it was taken and so disposed that all can be quickly replaced if needed.

The delegates of the American Bankers Association 1928 Convention will be conducted to the Navy Yard, where they will see for themselves this interesting Naval Base, and where special entertainment features have been arranged for them.



When Quality Demands Quality



It is of more than passing significance that so many prominent banks and business institutions, large and small, use Milwaukee Chairs.

Dignity, charm and enduring quality in office furnishings play a vital part in the success of every commercial endeavor. Men of affairs are becoming more and more appreciative of the importance of pleasant and attractive surroundings in promoting mental comfort and efficiency. There is nothing which so expresses and contributes to all of these essential qualities as Milwaukee Chairs.

Above we illustrate the President's

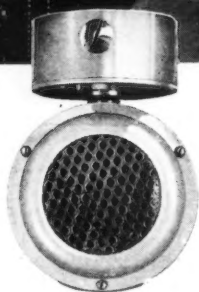
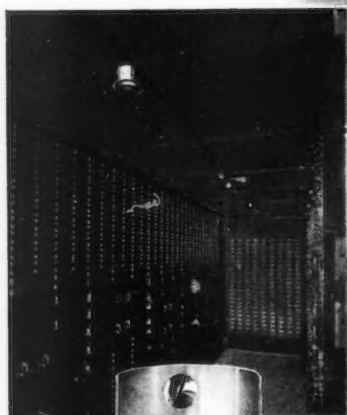
and Directors' Room, State Bank of Evanston, Ill. [Childs & Smith, Architects], equipped with Milwaukee Chairs.

Whatever your requirements, out of the great variety of Milwaukee Chairs you will find the very design that will superbly harmonize with your surroundings, whether pretentious or sedate.

We will appreciate an opportunity of submitting photographs of Milwaukee Chairs suitable for your quarters. A letter to the Milwaukee Chair Company, 666 Lake Shore Drive, Chicago, Ill., will bring a representative to see you.

MILWAUKEE CHAIRS

The alarm housing contains all of the alarm mechanism and is attractively designed to harmonize with the architectural scheme.



This sensitive sound detector is easily installed on the ceiling of a new vault as well as existing vaults. Its operation is prompt and dependable—it has never failed.

A.D.T. Phonetalarm safeguards the vault

Tampering with a vault protected by A.D.T. Phonetalarm causes an immediate alarm to be transmitted. Sensitive sound detectors are actuated by noises on the outer surfaces or within the vault. That the protection is positive is proved by the fact that a successful attack has never been made on a vault protected by A.D.T.

A.D.T. Phonetalarm Systems may be operated locally by the owner or by A.D.T. through 113 A.D.T. Central Offices throughout the country. They are extensively used by leading banks. Let A.D.T. show you how to obtain positive protection.

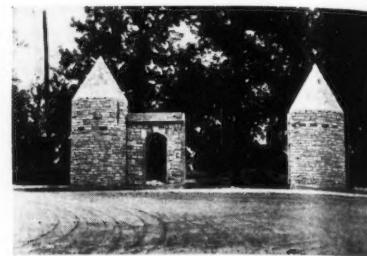
Controlled Companies of

American District Telegraph Co.

183 Varick St., New York, N. Y.



Ⓜ 2788-R



Grim Payroll Guardians

Stone Turrets for Bank Guards

THERE is nothing glamorous about Crystal City, Mo. It is a fair-sized industrial town, about 35 miles south of St. Louis, with a population of less than three thousand.

It thrives on the prosperity of a single plate glass factory, as does Festus, its sister city to the West.

But just a few hundred yards east of the hard road, in a newly built section of the town, has been transplanted a bit of the Middle Ages, reminiscent of moats and castles, of the times when armored knights fought hard and gallantly for the love of fair ladies, when feudal lords ruled everything.

Officials of the Crystal City State Bank who are responsible for this bit of picturesque architecture were not inspired by romantic fancy. They merely sought protection from bank bandits.

Directly across the street from its building on the southwest corner of Mississippi avenue and Bailey road, the bank has erected two miniature stone fortresses. Silhouetted against the background of a small park, they look for all the world like the outbuildings of a medieval castle.

Instead of a mail-clad archer, a crack marksman is stationed in each of the turrets. He has a sub-machine gun with which he can rake with continuous fire any band of marauders who may try to hold up the bank.

The principal reason for this extraordinary precaution is that twice monthly a large sum of money, almost \$100,000, is brought to the bank in a mail truck, to make up the payroll of the Pittsburgh Plate Glass Company, whose offices are diagonally opposite the bank. Three years ago four bandits took \$45,000 from the mail truck and the bank officials want to prevent similar recurrences.

The two tiny forts, situated on the southwest corner, afford their occupants a clear view of the bank, the glass company and the streets along which the mail truck must travel. The guards, standing on raised platforms, look through rectangular loopholes about twelve feet from the ground, through which they can train their guns.

STOCKS of gold in the United States were reduced to the extent of about \$580,000,000 from the middle of May, 1927, when this country's holdings were at their peak, and the end of June, 1928,

Who Can Solve These Savings Bank Problems

(Continued from page 93)

is set forth, its financial history provided for and its credit standing specified. In a general way this legislation has answered its purpose well, and for more than a generation we have experienced no savings bank failure which could be traced to investment in poor securities. But it has a disadvantage. To a great extent it eliminates or makes unnecessary the exercise of brain power in the purchase of securities. When everything is so wisely regulated for us that serious error is almost impossible, we tend to trust to that regulation, and avoid the labor of independent thought. So there grew up among us a school of executives who locked their newly bought bonds in their vaults and forgot them. I've heard treasurers boast of "forgetting them." They seemed to believe that the man who watched his list and the market, and eliminated weak bonds when signs of trouble appeared showed a lack of conservatism. They classed him as "a speculator." Even the lesson which the depreciation of bond prices between 1903 and 1920 taught us, failed to affect some, and we still see purchases made or bonds held which ought to be disposed of, with only two considerations in the minds of the executives: "Are they legal?" "What do they pay?" The problem is whether we can operate under a "fool proof law" without, to some extent, becoming what the law is proof against.

What Percentage in Mortgage Bonds

THERE are numerous practical problems which still remain to be solved. Probably no general solution can be arrived at because the circumstances and the clientele of one bank differ from those of another. What percentage of investments should be in mortgage loans? Ought one to go to the legal limit or should one rest content with 50 or 60 per cent or less? This may, perhaps, depend on the local real estate market, the state of the bond market, and on what one thinks of its future.

Ought one to be content with the legal limit of \$7,500, which we can now receive from each depositor, or is it, putting a limit on thrift? The British parliament took off the limit during the war, and the savings banks were glad to get a new limit created to protect them from a flood of deposits during the post-war period of easy money. Their limit is now \$2,500, deposited in any one year, but with no fixed total.

What is our duty to neighboring banking institutions and to our depositors when our percentage of surplus and our net earnings apparently justify the payment of a higher dividend? Ought we to raise the rate, if that will apparently make them lose deposits which



ONE of the many surprising vistas in the largest single banking room in the world—

The UNION TRUST Co.
CLEVELAND
Resources over \$300,000,000

For All 'Round Protection— A Bankers Blanket Bond

A MIDWESTERN bank recently filed a claim against the F & D covering an \$18,000 shortage in the accounts of its Note Discount clerk. At the time of reporting the loss, an official of the bank made the following statement to the local F & D branch manager:

"This loss would not have been covered if you had not succeeded in persuading our directors to replace our individual fidelity bonds and burglary policies with one of your company's Bankers Blanket Bonds. We would not have believed it possible for this young man to have caused the bank a loss of more than \$5,000. *And that was all he was bonded for under our old coverage.*"

Maximum Protection at Minimum Cost

The Bankers Blanket Bond, as furnished by the F & D, enables banks to obtain under one form a maximum amount of protection, at minimum cost, against a wide variety of hazards, such as losses resulting from—

- the dishonesty of employees;
- burglary and robbery;
- interior and exterior hold-up;
- forgery and alteration of checks and drafts drawn upon the bank, and of certain other instruments;
- loss or destruction (including fire) of money or securities;
- misplacement;
- negligence on the part of an employee while transporting money or securities;

—theft of money or securities while being transported by an employee of the assured bank.

Against many of the hazards covered by the Bankers Blanket Bond, it is impossible to obtain specific insurance.

At Your Service

Space prevents the listing of all the many desirable features of the Bankers Blanket Bond. Upon request, the F & D will gladly arrange to have one of its experts furnish complete information regarding this coverage to any bank. It is understood, of course, that such a request will not place the bank under any obligations, either real or implied.

FIDELITY AND DEPOSIT COMPANY

of Maryland



BALTIMORE

Fidelity and Surety Bonds—Burglary and Plate Glass Insurance

Representatives Everywhere

An American company providing the best possible protection for American banks

they cannot give up without calling in local loans, or protect themselves by paying a rate which they cannot afford? Ought one to weaken the business situation on which one's depositors depend for their daily bread? On the other hand, are not our depositors entitled to benefit by our earnings, when we are strong enough to suspend additions to surplus?

Should we ask the legislature to permit us to give limited checking privileges to those depositors who need them, somewhat after the Australian system, or would this prove dangerous and expensive, if granted? It would be a strong competitive move against those institutions who have taken so many strictly "savings" accounts away from us, but would it be wise?

The solver of these problems will deserve well of savings bankers.

Some Banks Give Away Interest

(Continued from page 91)

not on regular deposits of larger amounts." He also raises the question about certificates of deposits, which are under practically the same, if not the identical, rules as regular savings accounts. "On what basis," he continues, "can a bank justify itself in paying interest from date on a certificate of deposit regardless of the day purchased, and not pay interest from date on savings deposits left the same day, and both under practically the same rules and issued from the same department?"

The nearest substitute for "interest from date" in use is to allow interest from date on deposits made before a certain day each month. Some banks fix the dead line at the 3rd of the month, others the 5th, others the 10th, and still others at the 15th. Deposits made after the stipulated date each month do not begin to earn interest until the 1st of the following month. This latitude takes fairly good care of the wage earner, as he can get interest from date on a part of his weekly deposits.

If the use of a substitute for interest from date is necessary in the interest of economy, then the plan of allowing interest from date of deposit on deposits made on or before the 3rd, 5th, 10th or 15th, as the case may be, and no interest on deposits made during the remainder of each month, is a good compromise. This allowance of time each month opens the way for paying interest from date for a part of all calendar months, and at the same time it makes a good saving of interest to the bank, as from one-half to nine-tenths of each month will be closed to interest from date, depending on the date a bank sets up as a dead line. In other words, there will be a closed period in each month on interest from date, and there will be an open period also. If no interest is paid after the 3rd, then only on deposits made during thirty-six days a year is interest paid from date. If on or before the 5th,

then interest from date is paid only on sixty days a year. Even with the dead line as to interest from date fixed at the 15th of each month, there still remains one-half of the year when interest is not paid from date.

No one in the banking business will deny that paying interest from date has at least one drawback, especially when good loans are scarce; but as so many bankers have said over and over again, it is a condition for which an entirely satisfactory remedy has not been found. But some one asks: Is it true that the practice of paying interest from date is one-half as dark as it has been painted? Is not the volume of savings funds that are actually unemployed over a period of years comparatively small, and is not the period of unemployment usually for a few days only? If loans are scarce, these funds are usually put to work in other channels, although the interest return may not be comparable to regular loans. Of course this loss would be accentuated if savings depositors withdrew these funds within ten days or thirty days from the date of deposit, but such is not the case, for usually savings deposits are left with the bank long enough for it to loan them at a rate that will enable the bank to even the score and make a fair profit.

The survey which I have made shows that here and there banks are abolishing the long-established practice of paying interest from date unless deposits are made on or before certain days of certain months. Other banks are headed in the opposite direction, and are not only paying interest from date but also to date of withdrawal.

Recently the largest savings bank in the United States, the Emigrant Industrial Savings Bank of New York City, came out with a large advertisement announcing: "Interest from the day of deposit to the date of withdrawal."

Another large bank, in fact, the largest bank in a certain leading state, sums up its interest policy as follows:

"If this bank makes any change in its interest policy, it will be to make its savings accounts more attractive. This bank has been for years and years building up its business to its present commanding position, and it is not going to get panicky over the present situation and, as a result, tear down what has taken it so many years to build. Unless conditions get much worse than they are today, there will be no reduction of interest or any curtailment of our liberal terms of computing interest."

Another bank takes the opposite view to these banks, not by choice but of necessity. It is a well-managed bank and has a competent corps of officers, but owing to surrounding conditions over which it has no control, it is having a struggle to earn dividends for stockholders, and have a little left over for the undivided profits account. There are a lot of banks in this same class. They are squarely up against the difficult problem of cutting down on the amount of their outgo and, if possible, increas-



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cutting down interest on their savings is too much of a phenomenon for me to comprehend.

PRINCIPLES OF VALUATION. By John Alden Grimes and William Horace Craigue. 274 pages. Price, \$10. Published by Prentice-Hall, Inc., New York.

"Principles of Valuation" is the title of a work prepared by two United States Treasury Department valuation engineers, John A. Grimes, formerly with the Anaconda Copper Mining Co., and William H. Craigue, formerly with the Gilmore Mining Co. It describes several methods of income valuation and discusses the advantages and disadvantages of each.

The objective of this book, say the authors, is the development and comparison of the several mathematical principles which are adapted to the valuation of future income, and a discussion of these principles with respect to their applicability or inapplicability to commercial usage. The threefold treatment has been chosen: the statement of premises, the conversion of these premises into algebraic formulas, and the arithmetical illustrations of the use of such formulas. The only individual factors of valuation which will be discussed are those common to all types of valuation, such as the future rate of interest and the treatment of the future capital expenditures necessary to the realization of the anticipated income.

The book shows what acceptable method can be used to value income of lands, natural resources, capital goods, franchises, patents, and good-will. It deals with the problem of figuring future income when the valuation decreases or increases by regular amounts, percentages, and incomes. The authors present four methods used in establishing sinking funds. They illustrate how to properly determine the "discount for hazard" or safety factor on future incomes which are subject to exceedingly high speculation.

Convention Calendar

DATE	OTHER ASSOCIATIONS	PLACE
Sept. 3-4	Wyoming Yellowstone Park	
Sept. 3-4	Montana Yellowstone Park	
Sept. 12-13	Kentucky	Louisville
Sept. 19-21	Indiana	Gary
Oct. 17-18	Nebraska	Omaha
Oct. 26-28	Arizona	Globe

DATE	OTHER ASSOCIATIONS	PLACE
Sept. 17-20	Financial Advertisers Assn.	Utica, N. Y.
Sept. 18-19	National Publishers Assn.	Shawnee-on-Delaware, Pa.
Sept. 30-Oct. 4	Assn. of Bank Women	Philadelphia, Pa.
Oct. 1-4	American Bankers Assn.	Philadelphia, Pa.
Oct. 17-20	Pacific Regional Trust Conference	San Francisco, Cal.

ing their income. They would like to reduce the rate, but hesitate to do so. A few banks have done so, but for every bank that has there are perhaps ten that would like to if they had any assurance that they would not lose some of their best customers by the move.

Depositors are not in sympathy with a reduction of the rate at the present

time, and the bank that steps out single-handed and reduces the rate below what other comparable banks in the same community pay must have courage. I can easily visualize borrowers flocking into a bank to have their loans refinanced upon the announcement of a lower rate on loans, but for depositors to rush in and thank their banker for

Trend of Banking Costs

(Continued from page 102)

percentage net earnings bore to deposits was cut approximately one-half in the same period. The figures are:

Capital and surplus, 1908.....	\$1,453,946,000
Capital and surplus, 1927.....	2,731,118,000
Increase	\$1,277,172,000 or 88.6 per cent

Net earnings in 1908 were 9.10 per cent on capital and surplus and in 1927, 9.24 per cent.

Percentages of increase of these three vital factors, deposits, capital and surplus and net earnings tell much of the story of economic adjustments that have taken place inside banking houses. A vast increase in deposits has swollen the volume of earning assets tremendously. Net returns on these assets have been lower and still lower in succeeding years. Increasing difficulty in maintaining the level of earnings—and resultant dividends—has kept the amount of invested capital down to a point where it could be employed profitably. In this way a fundamental change of the utmost significance has taken place and that is a lowering of the ratio of deposits to invested capital. In 1908 the national banker had invested \$1 to each \$4.26 of deposits; in 1927 he had invested \$1 for each \$8.16 of deposits. That change probably tells the story of a great many bank failures. Such was the average of all national banks in the country. (See Chart B.) It is well known that in a number of instances and in many districts the ratio is much greater; a 12 and even 14 to 1 relationship existing. It is true enough that such a high ratio increases earning power, but at the same time it affords a lessened margin of protection for the depositor. The ratio of 10 to 1 of deposits to capital and surplus has long been accepted as the desirable basis on which to operate banks; and it is considered a safe basis when coupled with a sufficient cash reserve, a goodly secondary reserve with ready marketability, and a generous proportion of bills receivable eligible for rediscount. Be that as it may, when the average ratio has crept up steadily from 4.26 to 1 to 8.16 to 1, it follows as extremely probable that many banks have broken over the border line in their efforts to increase earning power and thus maintain their percentage of net earnings on a steadily narrowing margin. It is a fact that the average percentage of profits on invested capital has been maintained—at a price.

Causes of Decreased Earnings on Deposits

TURNING to our third question, which must be discussed as "causes of decreased earnings on total deposits," we find an absorbing subject. Obviously the main source of a bank's income is from interest and discount on loans and investments, the rate of which varies but slightly over a period of years. Reducing gross earnings of all national banks to percentages of deposits, it is illumi-

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nating to find a variation of less than one-half of 1 per cent in twelve out of the last twenty years. Three of these abnormal years were 1913, 1914 and 1915, when a condition of unusual stringency in business existed. The other five years were 1919 to 1923 inclusive, when the variations were directly due to war conditions and the ensuing deflation era. In each of these eight years the average of gross earnings was higher than normal, reaching a peak of 7.93 per cent in 1921. For practical working purposes in normal times, gross earnings of from 5.50 to 5.60 per cent of deposits may be depended upon with reasonable assurance. Clearly the reduction in net profits is not due to failure to receive an adequate gross return on earning assets.

Only two other probabilities remain to

account for the decreased net income. Either the funds were expended for current operations, or heavy losses and depreciation exacted an undue toll; or a combination of both occurred.

Total expenses made a steady encroachment upon gross earnings, becoming more pronounced each year, until the peak was reached in 1921 with the unprecedented cost percentage of 5.48 per cent of total deposits—a prohibitive figure. Had it not been for a corresponding increase in gross income in this period, due to abnormally high interest rates prevailing, and the taking of paper profits, 1921 would have proved a black year for bank profits. Since 1921 the percentage of expense has lowered somewhat, but it has remained a very high figure, almost exactly 4.00 per cent of deposits. This rate compares with 2.80

per cent to 3.00 per cent in the earlier years, accounting for practically the entire reduction in net earnings.

Net Losses Misleading

NET losses also soared in 1913, 1914 and 1915, and again in 1921 and 1922. By 1924 they were down approximately to a point which might be considered normal, one-half of 1 per cent. In these so-called losses are included charge-offs and depreciation of buildings, vaults, furniture and equipment, as well as amortization of bond premiums and items of like character. The term "net losses" as used in the Comptroller's reports is apt to be somewhat misleading to the uninitiated, as a considerable amount included in these "charge-offs" is the normal depreciation incident to any business, and it is customary to include such deductions under the classification of "operating expenses." We do not find in the amounts charged off under net losses a genuine cause for permanently lessened profits. The accompanying chart "C" showing relative distribution of gross earnings for 1908 and 1927, is helpful in visualizing changes that have taken place.

We must, therefore, look to a further and detailed analysis of expenses to find our solution for diminished profits. The record of expenses incurred and their percentages to gross earnings and to total deposits over the twenty-year period forms an interesting comparison:

EARNINGS AND DEPOSIT PERCENTAGES

Year	Expenses (000 Omitted)	Percentage of Gross Earnings	Per- centage of Total Deposits
1908	\$150,551	45.3	2.89
1910	209,784	52.9	2.89
1911	232,082	54.1	3.02
1912	258,730	57.5	3.21
1913	284,516	56.1	3.49
1914	301,424	58.4	3.52
1915	322,450	61.1	3.66
1916	370,903	62.7	3.41
1917	410,753	61.5	3.22
1918	510,185	63.9	3.54
1919	610,780	67.0	3.53
1920	736,390	66.4	4.29
1921	829,906	69.1	5.48
1922	732,990	68.6	4.41
1923	736,582	70.2	4.32
1924	766,044	71.3	4.01
1925	798,714	71.0	4.01
1926	841,714	70.6	4.08
1927	882,374	71.4	3.96

It is readily apparent from the schedule of percentages that expenses, climbing steadily, have absorbed the major portion of gross earnings. (See Chart D.)

Maintenance of Profits

OUR last question, "the maintenance of net profits on such a basis," would necessitate establishing a definite formula, taking into account the important factors of "gross earnings," "total expenses," "losses," "depreciation and other charge-offs," "net income," "additions" to "undivided profits" and the payment of dividends.

Using the actual experience of national banks for the past few years we have this situation:

	Perc. to Deposits
Gross earnings	5.58
Deductions:	
Expenses, etc.	4.00
Losses, etc.	.52
Net earnings	1.06

With an 8 to 1 ratio of deposits to capital funds, on capital and surplus of \$150,000 and deposits of \$1,200,000, net earnings at 1.06 per cent would be \$12,720, permitting a dividend payment equal to 6 per cent (\$9,000) on capital and surplus, and an addition of \$3,720 to undivided profits account. This return on capital funds is insufficient for the hazards assumed in banking and for the double liability provision attaching to ownership of national bank stock. Neither is the addition of \$3,720 to undivided profits account enough to maintain a proper relation to increased deposits, nor adequate to serve as a shock absorber for the unexpected losses that comes sooner or later in a bank's experience.

For the smaller bank the problem is more acute, as the average ratio of deposits to capital funds would be nearer 6 to 1. In such a case we would have capital and surplus of \$150,000 and deposits of \$900,000. Net earnings at 1.00 per cent of deposits would yield \$9,000. The temptation would be to pay out all of these net earnings in dividends so as to return 6 per cent on the stockholders' investment. In so doing there would be failure to maintain a conservative policy of building up reserves adequate for protection to depositors or for unexpected contingencies. It is not playing the game safely.

These two illustrations will serve briefly to emphasize the importance of adhering strictly to principles of bank management that are economically sound.

Formula Adaptable to Any Bank

UNDER present conditions here is a formula that can be adopted as a practical and safe basis by any bank, irrespective of size, when a ratio of 8 to 1 of deposits to capital and surplus exists:

	Per Cent
Gross earnings	5.50
Expenses	3.50
Losses and depreciation .....	.50
Net earnings	1.50

That this basis may be accepted as fundamentally sound and accurate is established by the experience of our national banks over a long period of years.

In essence the problem of the small town banker is similar to that of his city contemporary. To each the vital factor is to maintain an adequate margin of net earnings in a period of mounting costs of operation without curtailing the quality and extent of service to customers.

With these facts before us may we not conclude that the trend of bank costs and profits is leading to adjustment or oblivion?

Bank Stock Speculation

WILL C. WOOD, California State Superintendent of Banks, draws four conclusions from the recent flurry in bank stocks on the exchange that

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John Wanamaker did not allow his likeness to be published without his own personal censorship. Roosevelt endeavored to be seen smiling, in person and in print. A bank may well exercise the same care to present a favorable public appearance. Its building, seen daily by present and prospective customers, has publicity comparable with that of newspaper headlines. Here is the opportunity to make a picture of the bank's character.

Does your bank building truly picture clean-cut and modern business methods, the integrity of the men in whom is placed so much confidence, the welcome you wish to extend to new customers? If it does, it is worth many thousands of words, spoken or printed.

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served to focus public attention upon a form of speculation which has been the subject of repeated warnings by banking authorities. He says:

"Speculators have learned, some of them through bitter experience, that buying bank stocks on a margin, or on contracts, or through escrow arrangements, in the face of repeated warnings against such practices, is poor business and leads ultimately to losses they cannot afford to sustain. One thing is certain—we

shall have less of such speculation in the future.

"The fundamental soundness of economic conditions in California was demonstrated by the recent flurry. The business public seemed to sense the truth that a wholesale write-off of paper profits does not affect intrinsic values. General business went on quite serenely in the face of a falling stock market.

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1919	\$ 876,101.00
1920	1,857,014.00
1921	2,946,158.00
1922	3,112,066.00
1923	2,830,995.00
1924	4,023,339.00
1925	4,669,227.00
1926	5,164,379.00
1927	6,085,194.00

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MR. 497

How the Franc Was Stabilized

(Continued from page 130)

based entirely on the then actual value of the pound, 124.10 to 124.15. M. Poincaré's speech was scheduled for 5.30 o'clock on Saturday afternoon. The Chamber of Deputies was in what is known as "permanent session," without possibility of adjournment until the disposal of the bill. Large Wall Street banks with Paris branches and New York branches of large Paris institutions were as certain as only bankers can be of inside political information that the Chamber's calendar was clear,

i. e., that Poincaré would positively announce the final terms of his famous bill at 5.30 p. m., Paris time. At that hour every stock exchange in Europe would be closed, and so would New York and all exchanges along the Atlantic Coast in North and South America. Chicago was too near New York to get the news of the value of the new franc so as to trade effectively before its noon closing. In the Orient—Shanghai, Tokio, Canton, Melbourne, Sydney—all good foreign exchange towns—it would be already Sun-

day. The only possible place on earth where one could speculate in francs with knowledge of the mystic figure pronounced by a French Prime Minister to 472 Deputies in the Palais Bourbon on the banks of the Seine was San Francisco, four "time hours" from New York.

Promptly at 5.30 p. m., Poincaré read his entire bill with only one omission, the tiny one of leaving the figures in blank silence. At 9.30 p. m. he returned to the impatient Deputies to announce that 65.5 milligrams of gold would constitute the value of the first new franc since Great Napoleon made the original one, 125 years before.

As a matter of fact, M. Poincaré's announcement struck very close to Saturday noon's close on the foreign exchange markets of the world. The new franc value of 65.5 milligrams of gold equals about 25.52 francs to the dollar, or about 3.92 cents for the franc. Francs closed at New York on the eventful Saturday at 3.92 15/16, off 1/16 for the two-hour day. Similarly the new gold franc gave in Paris a rate of 124.21 to the pound, comparing with 124.15 at the close in New York, based in turn on a dollar rate of 4.87%. Of only academic interest was Saturday noon's franc gold export point, put by most cambists at 3.95 5/16, allowing 2½ points to cover expenses.

When France was still recovering from the wars of Napoleon, not much more than one hundred years ago, one of the most illustrious financiers of all time, the Baron Louis, Minister of Finance, said to his Sovereign, King Louis Philippe, preoccupied in his quiet soul with the slowness of his country's convalescence from the excesses of the Corsican: "Sire, you give us sound politics and I will provide sound finances." The situation is much the same today. France is convalescing from her war alliances and from those of her enemies. The revived *Union Sacrée* of the war years, working in a constructive rather than in a destructive cause, has provided a Holy Union of all political parties to carry on the sound politics of Locarno, which have enabled Minister Poincaré to build sound finances.

The following appear at the moment to be the most obvious immediate results of the stabilization of the franc:

1. The last finishing-off blow to the French rentier class, who lived on savings and pensions, with the resulting acceleration of the Americanization of French economic life, with opportunity open to the young.

2. The reopening of a potentially large long-term investment market, which had been practically extinguished by the fear of investors as to what the financial future might have in store for them.

3. The continuation of the issuing of bonds in larger amounts than the issuing of stocks, with a corresponding decline in the yield of new bonds.

4. The strongly menacing demand on the part of state employees, then railway employees, and finally of industrial workers for a wage scale equal to a figure in new francs five times greater

than the scale of pre-war wages in old francs.

5. The tendency of the cost of living to catch up with the world index-number.

Finally appears a paradox so striking that American students of financial history can do no better than to attribute it to the legendary flightiness of a nervous people—for centuries French school children have been taught to hold in horror the various monarchs who ruled somewhat previous to their youthful time because when these mighty sovereigns felt the urge to wage expensive wars they adopted the simple and ancient device of debasing the golden French franc. Since the Third Republic this post mortem propaganda has been heightened in its intensity. Today, in 1928, comes a devalorization of the historical national currency on a scale never dreamed of before. During the French Revolution, around the time of the Terror of 1793, the First French Republic accomplished a bankruptcy of two-thirds. In 1928 the Third French Republic consummated one of four-fifths. The failure of the First Republic is still currently denounced by the peasantry of the country, descendants of holders of the famous assignats. For how many generations will thrifty Frenchmen remember the "Black Sabbath," Grand Prix Day, 1928?

Farm Bank System Rates

(Continued from page 118)

of mortgage loans outstanding at the end of 1927 was \$1,155,643,871, as compared with a net total of \$1,077,818,724, at the close of 1926, an increase of \$77,825,147. The new business done in 1927, \$140,384,200, shows an increase over the \$131,317,715 of new business placed in 1926 and the \$127,355,451 of new business placed in 1925 but in general the business done was upon much the same level as compared with the high totals of three years previous.

The Joint Stock Land Banks have not done so well. By the close of 1927 they had placed total loans to the value of \$829,983,121 of which \$669,798,093 were in force at the close of the period as compared with a net total of \$632,475,528 in force at the close of 1926. However, in 1927 these Joint Stock Land Banks placed new business to the amount of only \$82,328,235 as compared with \$123,026,271 in 1926, and \$131,430,110 in 1925. Loans closed for the first five months of 1928 amounted to only \$20,871,900 as compared with \$52,715,550 in the same period of 1927. The two systems together placed new business in 1927 to the amount of \$222,712,435 as compared with new business in 1926 of \$254,343,986 and in 1925 of \$258,786,261.

This notable decrease seems to have been due partly to the general policy of avoiding all loans of a doubtful quality pursued by all the banks and particularly by the Joint Stock Land

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- 2 IMPRESSION-PROOF:** The key is sheathed in a metal scabbard, which cannot be removed until the seal is broken.
- 3 IMPOSTER-PROOF:** Vault manager and renter *together* set the lock to the key; only vault manager and renter *together* can unlock the box.
- 4 PICK-PROOF:** A projection over the sweep section of the tumblers makes it impossible for picking instruments to reach effectively the lock's vitals.
- 5 LAWSUIT-PROOF:** When the renter chooses his key, he signs a receipt which is *incontrovertible court evidence* that he was first to see and touch it.
- 6 COST-PROOF:** When the renter gives up his box, do not send back the lock for resetting—it may be reset on the door. The keys are the only tools you need.

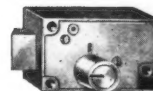
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Banks as a part of the turn toward conservatism and the general rehabilitation of the system made necessary by the condition of some of the banks and the questionable light in which the entire system was coming to be regarded as a result of the difficulties of a few of the institutions. It was also due in part to higher rates of interest charged borrowers by the Joint Stock Land Banks made necessary by the difficulty of selling their bonds at prices comparable with those of the Federal Land Banks. Their business consists primarily of loaning money to farmers on farm mortgages from funds which they have secured by selling bonds to the general public, such bonds being secured primarily upon the farm mortgages.

By the terms of the law governing their business they are allowed to charge borrowers not to exceed one per cent more than the rate of interest borne by the bonds they sell. The least impairment of confidence in the security or in the management of the institutions results in an increase in the rate of interest they must pay on their bonds.

The chief concern of bondholders and stockholders in the farm loan banks has been in the amount of real estate falling into their hands by foreclosure or voluntary relinquishment. In the hearings before the Congressional Committee on Banking and Finance, it was shown that the land banks as a whole were in fair shape, all things considered, even in those parts of the country where

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agricultural depression had been at its worst. However it was clear at that time that a policy of liquidation and careful management would be necessary if the banks were to avoid unfavorable developments as a result of the depression in land values. In a series of articles published in these columns during the autumn of 1927 it was shown that the banks had entered upon a process of liquidation and readjustment and that by reason of this policy and the maturing of many loans which could not be paid the banks were coming into the possession of an increasing amount of real estate they were unable to dispose of to advantage.

Up to the end of 1927 real estate had been acquired under foreclosure to the net amount of \$15,694,665 as compared with a net total of \$11,351,758 at the close of 1926 making the net increase in the amount of earnings thus written off during 1927 of \$4,342,908.

The statement of condition on March 31 of the current year shows an asset item of \$1,381,258 over and above reserves set up to counterbalance the bulk of the real estate credits. Real estate holdings at that time, as indicated in the general item, were valued at \$14,398,757, thus showing a reduction of \$1,295,907 in the first three months of 1928 in the value of real estate held.

However, in the statement of May 31st, 1928, the value of the holdings had again risen to \$15,066,734 and the asset item to \$1,840,373.

Holdings of the Joint Banks

DURING 1927 the value of the real estate holdings of the Joint Stock Land Banks increased from \$4,695,571 at the beginning of the year to \$5,576,438 at the year's close—an increase of \$880,866 while the value of sheriff's certificates, judgments and the like increased from \$2,259,992 to \$3,636,715 during the year.

The acceleration of the process of liquidation is more clearly indicated in a comparison of the statements of December 31, 1927, March 31 and May 31, 1928. The value of the real estate sales contracts, purchase mortgages and the like at the close of the year was placed at \$3,636,715 and at the end of March this total had been reduced to \$2,981,425. By May 31 it had been further reduced to \$1,015,607. The value of sheriff's certificates, judgments and the like at the close of last year was placed at \$3,788,175 while by the end of March the value had increased to \$4,979,788, and by May 31 had reached \$5,188,056. The value of real estate actually held at the end of last year was \$5,576,438 and by the end of March this had increased to \$6,536,647. On May 31, 1928, the value was \$7,533,558. The total of these real estate assets at the end of last year was \$13,991,328. By the end of March they had reached \$14,497,860 and on May 31, 1928, they had been reduced to \$13,737,221.

The progress in foreclosure is especially apparent in the increase in the value of sheriff's certificates, judgments and the like although the increase in actual real estate held is impressive. During this three months period, also, the totals of surplus earned and paid in, legal reserves and other reserves and undivided profits decreased from \$11,911,152 to \$11,884,200. This reserve account was substantially unchanged on May 31, 1928. Mutations in minor items in the two statements render exact comparison somewhat uncertain but it is believed that the statistics given indicate a fair comparison of the returns.

The Board takes an optimistic view of the "frozen asset" situation. It expresses the opinion that not only has the bottom of the depression in farm values been reached but that such values are and gradually improving. It is particularly worth noting that the Board reports that most sales of land by the land banks have been made to farmers in the neighborhoods where the farms are located and such sales usually endure.

The final test of the confidence of the public in the farm bank system of the United States lies, as indicated heretofore, in the rates of interest charged farmer borrowers by the banks, since under the system on which these institutions have been founded the rates of interest charged for loans are based upon prices at which bonds of the banks can be sold to the general public.

During 1927 the Federal Farm Bank at Springfield reduced its interest rate on loans from $5\frac{1}{2}$ to 5 per cent; the bank at Baltimore from $5\frac{1}{2}$ to $5\frac{1}{4}$ and then to 5 per cent; that at Columbus from $5\frac{1}{2}$ to $5\frac{1}{4}$ per cent and the bank at Berkeley from $5\frac{1}{2}$ to $5\frac{1}{4}$ and then to 5 per cent. The bank at Spokane continued to loan money last year at $5\frac{1}{2}$ per cent but during the current year has commenced to loan at $5\frac{1}{4}$ per cent. All of the other Federal Land Banks loan at 5 per cent, some of them having reduced their rates during 1928 and others previously. All these rates depend upon the price at which the bonds of these banks could be sold.

During 1927 the bonds of the Federal Land Banks, which are practically interchangeable, sold at $4\frac{1}{4}$ per cent and $4\frac{1}{2}$ per cent and since under the law the rates charged borrowers must not exceed a one per cent spread, the rates of interest above charged have thus been brought to conform to the law. However, it has been found that banks with loans exceeding \$100,000,000 in amount and in good condition can operate successfully on a spread of less than one per cent and hence the reductions noted have been made possible. In recent months bonds of the Federal Land Banks have been sold at 4 per cent or less and thus it is possible that interest rates charged former borrowers may soon be brought below the 5 per cent level.

The Joint Stock Land Banks were able to sell their bonds in 1927 at rates varying from $4\frac{1}{4}$ to 5 per cent, each of these banks under the law being responsible for its own bonds only. Much of the decrease in the business done by the Joint Stock Land Banks has been the result of the higher rates of interest charged borrowers because of the higher rates of interest they have been compelled to pay upon the bonds they have issued as the basis for the loans made.

Public Begins to Discriminate

IN the case of the Federal Land Bank bonds the interdependence and joint responsibility of the twelve banks in the system have enabled these institutions to secure rates from the bond buying public which most of the Joint Stock Land Banks, each of which issues bonds upon its own responsibility and credit only, have not been able to secure, particularly during what the Farm Board refers to as the "disorganization of the market" following the appointment of receivers for three of the banks. However, in recent months the bond buying public has commenced to discriminate not only as between the two classes of farm banks but also as between individual banks, particularly in the Joint Stock Land Bank system. As the Board states the case in its report:

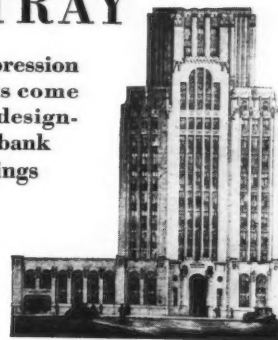
"They began to consider Joint Stock Land Bank bonds not as a class but as the obligations of the particular banks issuing them and to appraise them accordingly on their individual merit. The market for Joint Stock Land Bank bonds has gradually improved and have sold substantial issues on favorable terms. The improvement in the market, it is believed, will continue."

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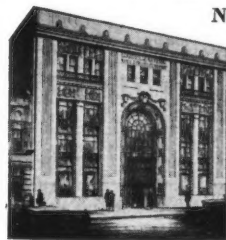
SIMPLICITY in treatment and concentration of architectural detail relieve and contrast with the severity of plain and unbroken wall surfaces. The use of columns, pilasters and heavy entablatures is eliminated in these buildings.

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Louisville, Kentucky



Carbondale National Bank
Carbondale, Illinois

Canada's Share in the "Gift from Heaven"

(Continued from page 122)

Pool he would be paid \$1 per bushel upon delivery at the elevator, and the balance in two later payments according to the net returns. All of the wheat as it moves toward the terminal points must be inspected by government officials, so that no Canadian wheat enters commercial channels or is ever bought by an importer in another country without bearing a Government grade.

Winnipeg is the great clearing house—the greatest grain point in the world in fact—and at the height of the crop moving season as many as 3000 cars will be inspected there in one day. The railway companies make up their trains

of, say, forty cars each, and these leave at half-hour intervals during the night en route to the terminal storage elevators at Port Arthur and Fort William, where the world's largest storage capacity at any one point has been provided, over 30 elevators with a total capacity of more than 60,000,000 bushels. From the terminal points the wheat moves down the Great Lakes in the seasons of open navigation, as much as 500,000 bushels to a boat, or by rail, to be placed in strategic positions with regard to the seaboard, so that upon receipt of orders these may be filled with all possible dispatch, consideration



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being given to the amount of shipping space which will likely be available at certain ports, and to charter rates.

Since 1921, Montreal has been the world's leading grain port, notwithstanding its inaccessibility during the winter and early spring. The system and facilities just described are known as the most complete, efficient and economical that exist for the grain trade.

Prices and the Wheat Pool

ONE of the most impressive developments in the Canadian wheat-growing industry is the formation and successful operation of the Cooperative Wheat Pool, the genesis of which was undoubtedly the Wheat Control Boards that were formed during the war, both

in the United States and Canada. As is well known, prices of farm products declined more rapidly than those of industrial goods in the depression that followed the war, and so great was the loss to Canadian grain-growers that they appealed to the Government for reestablishment of the Wheat Board and, failing in three years' effort in this direction, they decided to help themselves as far as possible by cooperative selling in the domestic and foreign markets. The organization has been in existence for five years and under capable management has been successful, and is now the most dominant factor in the grain trade. It has a membership of 145,000 farmers whose contracts with the Pool provide for delivery of about 60 per cent of the entire wheat crop. The Pool has an extensive

elevator system and its sales agents are to be found in every important foreign grain trading center. It is doubted by many observers that the Pool has raised prices but unquestionably it has brought about orderly marketing from the farms and prevented glutting of the market, while for trading purposes it has placed the farmers on equal terms with the buyers, a position they did not occupy as individuals.

The triumph of wheat growing in Canada has exercised a vitalizing influence upon the economic life of the whole country, but it is not overstepping the mark to say that it is one of the most spectacular accomplishments in history, or that it has contributed to the welfare of the world as much as, if not more than, any other development. At the time of writing the 1928 crop, planted on a record acreage, is in excellent condition and if Providence is kind throughout the remainder of the season sufficient wheat of the highest quality will be harvested to provide bread for 75,000,000 people, and Western Canada will again merit the tribute paid it last year by a prominent American visitor who described it as "the most prosperous spot on the world map."

Chain Banking

(Continued from page 117)

industry. Elimination of waste has been going on in banking as well as in industry through the reduction of overhead expenses and the unnecessary overlapping of services. The result has been wider margins of profit.

The basis of the movement lies in the local bank consolidations which are becoming more numerous. In the field of finance the national and international problems are the local problems magnified. There is a serious question whether the nation is over-banked just as the number of local consolidations testify to the fact that some communities are over-banked.

Generally speaking fewer banks mean larger average deposits. The following table gives the average amount of deposits per bank for fourteen leading cities as of Dec. 31, 1927:

	Number of Banks	Total Deposits	Average Deposits per Bank
D. of Colum.	42	\$249,693,000	\$5,945,000
Baltimore ..	44	604,815,000	13,746,000
Boston	52	1,773,946,000	34,114,000
New York ..	127	8,864,500,000	69,799,000
Philadelphia.	124	1,941,387,000	15,556,000
Atlanta	15	122,040,000	8,136,000
New Orleans	9	261,218,000	29,024,000
Dallas	17	159,581,000	9,387,000
St. Louis ...	58	651,986,000	11,241,000
Chicago	225	2,823,886,000	12,551,000
Denver	15	167,720,000	11,181,000
Seattle	26	199,722,000	7,682,000
San Francisco	17	1,691,521,000	9,950,000
Los Angeles.	25	1,095,823,000	43,832,000
Total ...	796	\$20,607,818,000	\$25,889,000

The Door Is Open

LOCAL consolidations have been raising the average of deposits in some communities. This has been accompanied by a higher average of profits and a lower average of expense. Chain banking was the next logical step from local

consolidations. Branch banking is the next possible development.

While the prediction that branch banking will speedily replace chain banking in this country may be open to challenge the revival of the old controversy before Congress seems to be unavoidable. Congress is going to give its attention to the Federal Reserve Act. There are demands that the organic law of the reserve system should be modernized. Brokers' loans are now a matter of popular interest and proposals for control machinery will attract attention. The door for legislative discussion of banking will be open and chain banking and branch banking will come in either at the head of the procession or as part of the crowd.

Profits in Building Materials

(Continued from page 114)

the period aggregated \$970,240,092, while the offsetting losses amounted to \$128,112,416. For every \$1,000,000 of money made, therefore, some \$130,000 was lost in the same business.

Return on Invested Capital is Moderate

A COMPARISON of the rate of return on invested capital in the different branches of the building materials industry may be made by selecting a few of the outstanding companies. Net profit for the year, after all charges, is divided by invested capital (capital stock issued and surplus) at the beginning of the year. Since the leading companies represent the larger, older-established and most successful organizations the results obtained will naturally be somewhat higher than what might be considered a theoretical normal rate of return for the industry.

International Cement Corporation last year was the leader in the cement group with net profits of \$4,554,000. Calculated on total invested capital at the beginning of the year the return in 1927 was 12.5 per cent, compared with 13.5 per cent in 1926.

Lehigh Portland Cement Co. reported profits of \$4,119,000 which represented a return on capital of 7.9 per cent in 1927 as compared with 10.0 per cent in 1926.

United States Gypsum Co., the largest American producer of gypsum, earned \$7,539,000 which was at the rate of 18.4 per cent on its capital in 1927, compared with 23.4 per cent in 1926.

Harbison Walker Refractories Co. had profits of \$4,012,000 or at the rate of 9.2 per cent in 1927 compared with 9.3 per cent in 1926.

Pittsburgh Plate Glass Co. reported a decline in earnings last year to \$6,430,000 which represented a return on its investment of 7.8 per cent, in contrast with 12.3 per cent in 1926.

Libbey-Owens Sheet Glass Co. also had decreased earnings last year, amounting to \$2,706,000 which was at the rate of 14.2 per cent on capital com-

pared with 20.0 per cent the previous year.

Certainly this return for the half-dozen leaders, averaging 14.7 per cent in 1926 and 11.7 per cent in 1927 could not be considered excessive, and most of the smaller companies did correspondingly poorer.

Future Outlook Fairly Good

WHILE the outlook for volume of building construction continues excellent, the outlook for earnings in the building materials industry should perhaps be spoken of as good.

Reference has already been made to

Examine Your Time-Honored Practices

Every business enterprise that exists long enough acquires its various traditions. Whether or not they are worthy depends on the management.

Good management looks into the traditions of its organization, especially at budget making time, and seeks to weed out those that are undesirable and thereby gain something in resources for perpetuating and strengthening those that are worth while.

The preparation and use of a well-ordered budget dictate that expenditures must be governed, not by precedent, but by necessity as indicated and explained by the aims and month to month operations of the business.

Effective *budget control* is based on Modern Accountancy and is a means through which Modern Accountancy serves the creative talents of management with the stimulus and dependable counsel of *timely* and *exact* knowledge.

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ACCOUNTANTS AND AUDITORS

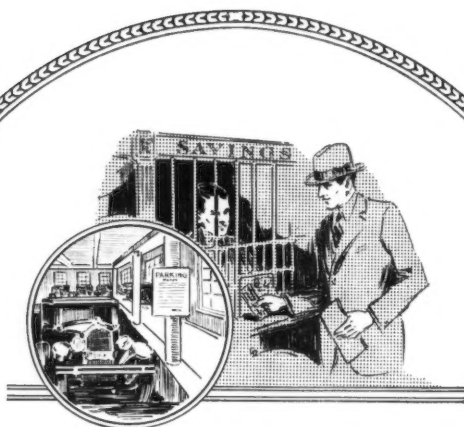
SYSTEM SERVICE

NEW YORK	PITTSBURGH	CLEVELAND	CHICAGO	NEW ORLEANS
PHILADELPHIA	WHEELING	AKRON	MILWAUKEE	JACKSON
BOSTON	ERIE	CANTON	MINNEAPOLIS	DALLAS
PROVIDENCE	ATLANTA	COLUMBUS	ST. PAUL	FORT WORTH
BALTIMORE	MIAMI	YOUNGSTOWN	INDIANAPOLIS	HOUSTON
RICHMOND	TAMPA	TOLEDO	FORT WAYNE	SAN ANTONIO
WINSTON-SALEM	CINCINNATI	ST. LOUIS	DAVENPORT	WACO
WASHINGTON	DAYTON	MEMPHIS	DETROIT	DENVER
BUFFALO	LOUISVILLE	KANSAS CITY	GRAND RAPIDS	SAN FRANCISCO
ROCHESTER	HUNTINGTON	OMAHA	KALAMAZOO	LOS ANGELES

the large construction program that is going forward in most American cities and towns, from the Statue of Liberty to the Golden Gate.

Activity in all branches of the materials industries has been reflected in seasonally heavy movement of products. Position of the cement manufacturers, however, is still comparatively unsatisfactory, and although prices are fairly stable in most sections, mills are operating at schedules well under capacity.

Manufacturers of specialty building equipment made excellent showings for the most part last year in the face of some irregularity in sales, and they have



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FIRST NATIONAL BANK

IN DETROIT

FIRST NATIONAL COMPANY
INCORPORATED

been experiencing further expansion in the second quarter just completed. Numerous of these companies have the competitive advantage of relative domination in their respective specialty lines.

From the standpoint of securities, the present outlook would seem to call for unusual discrimination. Stocks in the strongest position have generally discounted their prospective earnings for the next year or more quite liberally and are selling around the high for the year. The majority of concerns, moreover, are analyzed as being in a weak or indeterminate position and do not appear to be particularly attractive either for investment or speculation until there is

evidence of a reversal of the declining trend in earnings already discussed.

Brick production is somewhat more steady than either cement or specialties and reports coming from the Common Brick Manufacturers Association of America forecast a normally good year. Prices are holding firm, and the greatest activity is in the New York market, the Southeast and Southwest, while business in the Middle West is retarded.

Building costs, according to the index of the New York Federal Reserve Bank, are 189 per cent of 1913 relatives, while building wages are 230 per cent and no signs of any receding movement are in sight.

Supervision With Continuity

(Continued from page 110)

bility it gives him, in place of the impersonal responsibility of the old-fashioned bureaucratic state banking department, and the permanent character of his employment will not only enable but force him to act with greater ambition, care and efficiency. It leaves no opportunity to hide behind his superiors. He will be compelled on one hand to defend his actions at every turn of the road and on the other he will be able to demonstrate the results of the enforcement of his recommendations.

"He will be as keen to make every bank under his supervision a safe institution as the manager of the bank himself, to enforce sound banking practices throughout his territory and to maintain all the banks there in prime condition so that they will be able to weather any kind of a storm, because he cannot run away from his responsibility, he cannot permit a single bank under his authority to get into a bad condition without ruining his own reputation as an examiner. He can no longer say: 'I told the Department that Blank's bank was in a bad way and they paid no attention to me. If the Department had followed my advice it would not have happened, etc.' He cannot say that under the new order of things, because he is on the job, he is in full control and is responsible to the banking department, as well as to the clearinghouse association. He cannot 'pass the buck' to anyone.

"He cannot afford to do anything but his level best for the reason the clearinghouse is always back of him and ready to aid his advancement and make his position more worthwhile if he is able to keep the slate clean. He will have every incentive to become a great examiner and make his district a center of good banking and public confidence. Instead of being merely an irresponsible critic making reports to his department and moving on, like the old time 'boarding around' school teacher, without a worry about the banks he examines, under the new plan he becomes, in effect, jointly responsible with the bankers of his district and has full power to act.

"The fact that he is permanently located in a particular district with the possibility of being adequately supported and rewarded gives him ambition to render services of the highest type.

"Another important advantage under this system is the ease with which a credit bureau is established automatically and legally by a permanent official examiner. For several years the American Bankers Association has exerted the greatest effort possible to encourage the spread of the credit bureau idea and in various localities they have been set up and have resulted in great benefit; but they are voluntary associations, are beneficial only to those who join them and their efficiency is often reduced by reason of the fact that there are always some banks which will not join them.

"These defects are cured under the new resident examiner plan because he becomes automatically for the banks an effective credit bureau. All that is necessary for him to function in this capacity is to card-index the borrowers of the district and from this is available to the banks which are entitled to have it information showing all duplicate borrowers. The examiner, of course, is required by law to preserve inviolate the privacy of all the reports he makes, but there is latitude for his actions in this respect enabling him to furnish essential facts about duplicate borrowers that both will protect the interests of the banks and will not in the least violate either the spirit or letter of the law. Such a credit bureau includes every bank within his district which he is lawfully called upon to examine and therefore is more comprehensive than a small voluntary group.

Difference Between City and Regional Plans

"THERE is one important difference between the city clearinghouse plan and the regional plan as we have developed it at Fremont. Under our plan, whether banks are willing or able to qualify as members or not, they nevertheless are, if they are state banks, part of the plan by virtue of the fact that they are under the supervision of the resident examiner. Their records become part of his official records. The plan does not fail because some banks stay out nor does it segregate the good banks into an organization and leave the poor banks to go on making trouble, but it includes all those that are under the examiner's supervision whether they are members of the association or not.

"It is important to remember that the examiner remains a legally constituted public official and his acts are wholly subject to the direction of the state banking department. At the same time he enjoys, through a thorough understanding arranged with the banking department, complete banker cooperation from the regional clearinghouse association. There need be no conflict from what might appear to be two sources of authority, because the association is without legal status. Nevertheless the moral force of the association can be made just as effective and constructive, or even more so, as if it had legal status."

The Fremont clearinghouse plan, it may be emphasized, differs essentially from some of the other large city clearinghouse plans, such as that in operation in Chicago, in that it does not employ its own examiners but provides for the use of regular state or national examiners, seeking to render them more effective in the future than in the past, first, by extending to them group cooperation in their work, and second, by bringing about the assignment of a permanent examiner to a given district. This adaptation of present public banking supervision organizations, both state and national, is possible without addi-

NEW YORK TITLE AND MORTGAGE COMPANY

CONDENSED BALANCE SHEET

June 30, 1928

ASSETS	
Cash	\$12,465,444.66
Bonds and Mortgages	21,282,064.30
Investments	16,408,223.95
Accounts Receivable	553,883.94
Net Interest Due and Accrued	1,216,086.03
TOTAL	\$51,925,702.88

LIABILITIES	
Capital	\$15,000,000.00
Surplus	20,000,000.00
Undivided Profits	10,570,390.79
Premiums and Fees Prepaid	1,512,706.21
Reserves	1,592,057.12
Dividends Payable	900,000.00
Mortgages Sold, not Delivered	1,548,292.82
Agency Accounts	802,255.94
TOTAL	\$51,925,702.88


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tional legislation or cost. The full scope of the idea on a state plan would mean the districting of the entire state by the bank commission with resident examiners in each district.

Thus the regional clearinghouse association idea as embodied in the Fremont plan seems to offer the nation at large a substantial part of the answer to the problem of feasible methods for improving banking conditions, and to offer to banking an efficient way for cleaning its own house, strengthening public confidence and goodwill and preserving the independent banking system. On the one hand it has shown itself a vigilant,

energetic organization always ready to turn out in an emergency, and on the other hand it is proving itself a normal, steady mechanism always functioning to improve banking conditions within the scope of its activities on the long run basis.

TREASURY officials estimate that holders of government securities are losing more than \$1,000,000 a year through failing to redeem issues upon which interest has ceased to run. This is a conservative estimate, as the owners of these matured securities are losing the use of over \$45,000,000.

FIXED TRUST SHARES

American Basic-Business Shares Corporation

Depositor

67 Wall Street, New York City

The Equitable Trust Company of New York

Trustee

Each FIXED TRUST SHARE represents a 1/1000th participating interest in property (deposited with the trustee), consisting of cash and a unit of common stocks of the following nationally known basic American industries:

Railroads

Illinois Central R.R. Co.
Louisville & Nashville R.R. Co.
New York Central R.R. Co.
Northern Pacific Ry. Co.
Pennsylvania R.R. Co.
Southern Pacific Co.
Southern Railway Co.
Union Pacific R.R. Co.

Industrials

American Can Co.
American Radiator Co.
American Tobacco Co. "B"
duPont (E. I.) de Nemours & Co.
Ingersoll-Rand Co.
International Harvester Co.
National Biscuit Co.
Otis Elevator Co.
Timken-Roller Bearing Co.
United Shoe Machinery Corp.
United States Steel Corp.
Woolworth (F. W.) Co.

Standard Oil Group

Standard Oil Co. of Cal.
Standard Oil Co. of Ind.
Standard Oil Co. of N. J.
Standard Oil Co. of N. Y.
Vacuum Oil Co.

Utilities and Quasi-Utilities

American Tel. & Tel. Co.
General Electric Co.
Pullman, Inc.
Western Union Telegraph Co.
Westinghouse Elec. & Mfg. Co.

Dividends are payable semi-annually against coupons attached to certificates.

FIXED TRUST SHARES are sold to investors by established investment houses and banks in most of the important cities of the United States and in several foreign countries, and are wholesaled to dealers by the following firms:

F. J. Lisman & Co.

44 Wall Street

New York City

for Eastern section of the United States
and foreign countries

Smith, Burris & Co.

120 So. La Salle Street
Chicago, Ill.

for Central section of
the United States

Ross Beason & Co.

San Francisco, California
Salt Lake City, Utah

for Western section of
the United States

Plan to Finance Shipbuilding

(Continued from page 106)

factor toward the real establishment of the privately owned and operated American merchant marine with better types of ships than have been possible hitherto.

Government to Get Out

HE believes that the government will gradually retire from the shipping business and that the Shipping Board will become a regulatory quasi-judicial body necessary to approve ocean rate agreements and to enforce agreements between steamship companies as to trade routes, in line with the government policy for the maintenance of adequate services to all parts of the world. The

Shipping Board is pledged to the policy of the Jones-White law, which calls for the sale of the trade routes to private ownership and for private operation as rapidly as possible. President Coolidge is supporting this policy.

Sale of the Shipping Board's West African Line at a price of \$20 per dead-weight ton higher than the last route sold is pointed out as an instance of the immediate benefit of the Jones-White law in establishing a new and higher market value for government steamship services and the older ships. The most difficult problem which the Shipping Board faces, in Mr. Munson's opinion,

is the sale of the trans-Atlantic route, because of the large type of steamer necessary for that service, and the very large amount of capital required to build and operate vessels of the Leviathan type. Two more ships of the giant liner type are needed to make the trans-Atlantic service a balanced trade route.

First Bids for Mail Contracts

THE first bids for mail contracts under the provisions of the Jones-White act were opened in Washington on July 9, and there was one bidder each for the regular trade routes at the rates prescribed in the new law for the upbuilding of each route. At least three of these bidders are expected to build new vessels within the first five years of the new mail contracts.

Mr. Munson mentions these first mail contracts as a striking evidence of the fundamental soundness of the principles inculcated in the Jones-White law, and the fact that there are organizations qualified to carry on the upbuilding of the American merchant marine for the best interests of the shippers, manufacturers, and farmers of the country, with ships of increased speed that will afford better delivery of American goods than has been possible in the past.

Succession to Trust Powers

(Continued from page 99)

The proposition decided by the Massachusetts Supreme Court that the consolidated national bank does not succeed to the fiduciary relationship is, in the case of wills executed prior to and not probated at the time of consolidation, based on the theory that the testator did not so intend, and in the case of wills under which the trust company is exercising the function of executor at the time of consolidation, the identity of the trust company is not continued in the national bank. The first theory underlies the Massachusetts decision of 1924; the latter is the theory of the present Massachusetts decision. The fundamental theory in either case is that the testator did not so intend, for if it could be held that the testator, when he designated the original trust company, knew and contemplated that it might in the future lawfully be carried into another corporation which would execute the trust, then the identity of the original trust company would be continued in the consolidated national bank. If, therefore, the theory that the consolidated national bank as a successor to the trust function does not come within the contemplation of the testator, should be overturned by the Supreme Court of the United States, then the conclusion that the trust succession provision of the Act of 1927 is in contravention of state law and is unconstitutional would fail of support, because the consolidated national bank would be the ultimate trustee intended, and there would be no judicial function of invest-

tigation and new appointment usurped by legislative fiat and no unconstitutional interference with the sovereignty of the state in the matter of settlement of estates and appointment of fiduciaries.

In Support of a Contrary Theory

IN support of a contrary theory to that upheld in Massachusetts, it may be said that every man who selects a corporate instead of an individual executor or trustee knows that the corporation is subject not only to change in personnel, management and stock ownership, but to change in organic structure under statutory permission of state or nation. He may have confidence in the personnel of the present officers, but this confidence can be only ephemeral, because he knows that the officers are subject to change. It is the corporation itself, which lacks personality, to which he is ultimately committing his trust, and this, too, he knows may change its form of organization. When, therefore, a resident of Massachusetts makes his will and appoints a trust company as executor—and we are considering now the validity of the trust succession clause as a law for the future—he knows that the trust company may lawfully be consolidated with a national bank, which will succeed to its rights, powers, privileges and functions, and to the lay mind it would seem like splitting hairs to say that while the national bank will take over, upon consolidation, the commercial and savings departments of the trust company, and such part of the operations of the trust department as relate to business transactions founded on contract, it will be prevented from taking over also that part of the trust department which includes administration of his will.

Granting that the right of the national bank to administer his estate must be derived from the intention of the testator as expressed in the will, is it too much to say that the subjection of the trust company to change in its organic structure and consolidation with a national bank enters into his contemplation when he makes his will or allows his will to continue after such consolidation has been effected, so that the function of the consolidated national bank of administering his estate upon his death comes within the scope of his original intention?

Intent of the Testator

FROM the viewpoint of ascertaining the intent of the testator, does it make any difference that the statute which says that upon consolidation a national bank shall succeed to all the rights, franchises, interests, etc., of the trust company, and which statute, even without the inclusion of an express trust succession clause has been held in New York and Illinois to transfer trust functions created under wills made prior to the consolidation or merger, is enacted by Congress, instead of by the state legislature? Does it not equally enter

into and form part of the intent of the testator? If so, the consolidated national bank, as a lawfully changed form of the original corporation executor, has come within the contemplation and intent of the testator, and is in legal intentment the executor named in the will. If the Supreme Court of the United States should favor such a theory, notwithstanding it refused a writ of certiorari to review a contrary conclusion of the Supreme Court of Massachusetts in 1924, then the trust succession clause of the Act of Congress would not be susceptible to attack as unconstitutional. It would not be the legislative usurpa-

tion of a judicial function because there would be no new executorship for the courts to investigate and appoint, nor would it be unconstitutional as an invasion of state sovereignty and an attempt to regulate a subject beyond the power of Congress and within the exclusive control of the states, namely, the administration of estates of deceased persons and the appointment of fiduciaries.

It is to be noted that there is a radical difference of view between the Supreme Court of Massachusetts, which holds that a corporate executor or trustee is a distinct personality in whom a trust is reposed which cannot be transferred by

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Maryland Casualty Co.
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Banking Facilities

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Personal Services

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57TH STREET AND FIFTH AVENUE

Federal enactment, and whose interest as trustee does not pass as a property right or interest under the transfer clause of the Federal consolidation statute and the Supreme Courts of New York and Illinois. The latter court holds that a corporation has no personality, and both courts hold that the privilege or interest of being executor passes to the consolidated corporation under statutes which transfer all rights, privileges and interests of the original corporation, which statutes enter into the contemplation of the creator of the trust. It is to be observed also that the Supreme Court of the United States has

established the proposition that a state bank converted into a national bank remains one and the same bank, having the same property and assets, and banking business under a changed jurisdiction. (*Metropolitan Bank v. Claggett, supra.*) While the Supreme Court of Massachusetts holds that this is not true as to trust functions, such rule is apparently contrary to the judicial view held in New York and Illinois.

The decisions in Pennsylvania, New York, Illinois and California afford strong ground for a belief in the likelihood that the Massachusetts theories will not prevail in the Supreme Court

of the United States, and that the decision of the Supreme Court of Massachusetts will be overturned and the trust succession clause of the Act of 1927 held constitutional and not in contravention of state law. Space will permit of but a brief reference to these decisions.

A Contrary Decision in Pennsylvania

THE Supreme Court of Pennsylvania in 1923 (*re Turner's Estate*, 120 Atl. 701) decided in an almost identical case directly contrary to the decision of the Supreme Court of Massachusetts. A trust company had been appointed guardian of an estate of minors. It was converted into a national bank and consolidated with another national bank. The consolidated national bank petitioned *as guardian for the minors*, asking that the funds be awarded to it. The Orphans Court refused, but the Supreme Court of Pennsylvania granted the application and denied a contention that the difference between the state and Federal law and regulations governing the handling of trust funds made the exercise of guardianship by the national bank in contravention of state law, saying that if the Federal conflicts with the state law, the latter must yield to the former, as, the right of the national bank being conceded, the power to exercise the right will follow as a necessary incident. The important point in this case is the recognition by the Supreme Court of Pennsylvania that the identity of the trust company, originally appointed as guardian, continued upon consolidation in the national bank.

The New York Court of Appeals in 1912 (*Bergdorf's Will*, 99 N. E. 714) held that a trust company designated in a will as executor which was merged with another trust company under the New York statute went out of existence by reason of the merger, and the absorbing company was not a continuation of the old; but by virtue of the statute, effective as part of the will, the absorbing company was the executor designated in the will and entitled to letters testamentary. The important point in this case is that when a man makes his will and designates a trust company as executor, and there is a statute which permits its merger into another corporation and provides transfer to the absorbing corporation of all its rights, privileges and interests, the absorbing company is entitled to succeed to the executorship, "and this it was that the testator intended."

The Supreme Court of Illinois in 1914 (*Chicago Title and Trust Company v. Zinser*, 105 N. E. 718) in a case of consolidation of two trust companies under the Illinois statute, held that the original corporation, designated in a will as executor, went out of existence, but that the consolidated corporation, which had received letters testamentary, was entitled to execute the trust. The testatrix in naming the original trust company, the court said, knew that the law permitted a consolidation, and therefore

contemplated, when she made her will, that such change might occur.

In *Mercantile Trust Company v. San Joaquin Agricultural Corp.*, 265 Pac. 583 (Feb. 29, 1928), it was held by the District Court of Appeal that where two banking corporations consolidate under the Banking Act, resulting in the bringing into existence of a single corporation as successor of the two, the successor corporation ipso facto succeeds to and becomes owner of the trusts as well as the property and contracts of the former corporations, provided as to trust estates or other like contracts there is an absence of stipulation or agreement between the parties specifically prescribing a different devolution.

The question involved in the decision of the Supreme Court of Massachusetts as to the right of a consolidated national bank to succeed to trust functions will remain uncertain in a considerable number of states pending a decision by the Supreme Court of the United States.

Corrective Legislation

UNLESS and until the Massachusetts decision is overturned by the Supreme Court of the United States, and the law made judicially certain that a consolidated national bank succeeds to all trust powers, it is undoubtedly desirable that an attempt should be made to establish the validity of trust succession through legislative enactment. Should such legislation be enacted by Congress or preferably by the states?

If the principles underlying the Massachusetts decision should be upheld, the question arises whether further legislation by Congress would be effective. In the course of its opinion the Massachusetts court says:

"The new Section 3 contains no statutory words to the effect that the identity of the state bank as a fiduciary by appointment of a court is continued in the national bank with which it has been consolidated, although the absence of express words declaring the preservation of identity of the state bank may not be of decisive significance."

Even should Congress amend Section 3 by expressly enacting that the identity of the state bank or trust company as a fiduciary should be preserved, such an amendment would seem to be of doubtful efficacy. It might still be attacked as beyond the power of Congress.

The Massachusetts court also states:

"The new Section 3 does not declare a general policy for the state courts to pursue in performing their judicial functions with respect to national banks but altogether abolishes the judicial function of determining who shall act as a fiduciary under judicial appointment and substitutes a legislative determination. The question is not whether the state court should hold a hearing and determine in accordance with its settled procedure and the guiding federal statute requiring the appointment of national banks on equal terms with trust companies, whether the national bank ought to be appointed."

If Congress were to amend Section 3 in accordance with the above suggestion, it would leave the question whether a consolidated national bank should or should not continue as executor open to a judicial determination of a state court, and this is not the object desired. It would seem that the subject is one which should be further regulated preferably by state enactment.

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Remedial State Legislation

TO obviate all question of Congressional interference with state rights in the settlement of estates of deceased persons and the administration of trusts, the enactment of uniform legislation by the states, supplementing the Consolidation Act of 1927 would seem to be the best remedy. In the course of its opinion in deciding the original case in 1924, the Supreme Court of Massachusetts said:

"There is no statutory provision in Massachusetts that a converted or consolidated national bank shall succeed to the privilege and rights with respect to unproved wills—the effect of such statute is not decided but the argument would be strong that legislation to that effect by a competent body would be effective."

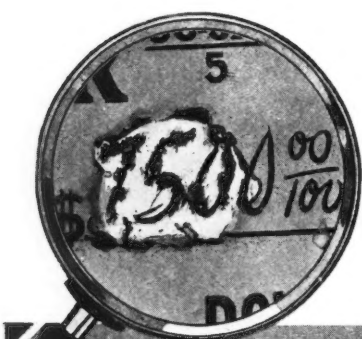
In the New York and Illinois cases it is expressly held that state legislation is effective in transferring trust powers under wills to the new consolidated or merged corporation, and there would seem to be no question that a statute enacted in any state which in effect provides that upon the consolidation or merger of a state with a national bank, all trusts of every kind and nature committed to the state institution should be transferred to and vested in the consolidated national bank, would be held to be effective to enable the consolidated national bank to succeed to the trust functions. In drafting such legislation in any state where needed, it should be made broad enough to cover consolidations



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(Producers of Construction Bond)
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WROE NONALTERABLE BOND

or mergers of two or more state institutions, and it would be desirable to embody in such legislation not only provisions for trust succession, but also covering the transfer of all rights or interests.

The North Dakota Statute

IN this connection a statute enacted by the Legislature of North Dakota, March 3, 1927, a few days subsequent to the enactment of the McFadden Bill, relating to and defining the effect of consolidation or merger of state banks and trust companies, as well as other domestic corporations, is suggestive. It will be noted that it is limited to con-

solidations of banks and other corporations organized under the laws of the state, and does not include consolidation of state with national banks. It could be readily amplified in this respect in title and body by inserting after the words "organized under the laws of this state" the words "or of the United States," and as thus amplified and with a few changes in phraseology might be used as a draft for enactment by legislatures in 1929 in those states where it is deemed necessary. It will be noted that the concluding words of the law expressly cover the transfer of trust and fiduciary relations. The complete text of the North Dakota law is as follows:

Be It Enacted by the Legislation Assembly of the State of North Dakota:

§1. Whenever any two or more corporations, including banks and trust companies, organized under the laws of this state have heretofore consolidated, merged or otherwise transferred, or shall hereafter consolidate, merge or otherwise transfer, its business to another corporation, including bank or trust company, organized, or to be organized, under the laws of this state, the consolidated or new corporation, by whatever name it may assume, or be known, shall, unless otherwise provided in the agreement or order of merger or consolidation, be a continuation of the entities of each and all of the corporations, including banks and trust companies, so consolidated, merged or otherwise transferred to such consolidated or new corporation for all purposes whatsoever, and all of the rights, franchises and interests of said corporations, including banks and trust companies, so consolidated, merged or transferred in and to every species of property, real, personal and mixed and choses in action thereto belonging shall be deemed to be so transferred to and vested in the corporation which acquires the same on such consolidation, merger or other transfer without any assignment, deed or other transfer, and such corporation shall hold and enjoy the same and all rights of property, franchises and interests in the same manner and to the same extent as was held and enjoyed by the corporation, or corporations, including banks and trust companies, so consolidated, merged or otherwise transferred, including the holding and performing by any bank or trust company of any and all trusts and fiduciary relations whatsoever as to or for which either or any of the banks or trust companies so consolidating, merging or otherwise transferring may have been, or may be appointed, nominated or designated by any will, agreement, conveyance, or otherwise, whether or not such trust or fiduciary relation shall have come into being, or shall have taken effect at the time of such consolidation, merger or other transfer.

Approved March 3, 1927.

We believe the adoption by any state of legislation substantially as above would be effective to transfer trust functions created by wills executed before its passage as well as subsequently. In this connection the language of the New York Court of Appeals in the Bergdorf case, above cited, is pertinent:

"It was within the power of the legislature to enact that a trust company, into which another trust company lawfully designated as an executor had been merged subsequent to the making and prior to the probate of the will, should be a transferee of the privilege or right of being executor."

Whether such legislation would have a retroactive effect on existing trusts created by private or court appointment prior to its enactment we will not now consider.

Trust Succession Clauses in Instruments

THE question to what extent it is practicable to provide by an express clause in a will or other trust instrument that upon consolidation with a national bank or other institution, the consolidated bank shall succeed to all the trust functions vested in the original institution is one more for the banker than the lawyer. Doubtless thousands of wills now exist in which trust companies are named as executors and trustees of which the company has never been advised. But it would seem that where such instruments have been lodged with or are known to the trust company, and in all cases where the trust company is consulted in connection with the framing of the will or trust instrument, the incorporation of some standard form of clause covering trust succession in case of consolidation or merger would be desirable as indicating

clearly the intention of the testator or creator of the trust that in case the institution is consolidated or merged with a national or other bank, the latter shall succeed to the trust functions. The necessity for such clauses would, of course, cease as to national banks whenever the right of trust succession is clearly established by the highest judicial tribunal or by legislation.

Effect of Massachusetts Decision in Other States

FINALLY, a brief word concerning the effect of the decision of the Supreme Court of Massachusetts upon national bank consolidations in other states. We are inclined to think that in states such as California, New York, Illinois and Pennsylvania, in view of the statutes and decisions in those states, the likelihood is that the succession as to trust powers by a consolidated national bank would be upheld; this in view of the fact that the courts of those states differ in their views from the Supreme Court of Massachusetts in regarding the trust corporation as without personality, and that the right or interest of the original trustee corporation is an interest in the estate which passes to the successor by force of the consolidation statute. At the same time, this opinion is not advanced with too much certainty.

In the majority of states, however, where no consolidation statutes exist, the situation created in view of the principles announced by the Supreme Court of Massachusetts is one of uncertainty, and officers of national banks in those states which have consolidated with state institutions, or are contemplating consolidation, cannot feel sure as to the right of a national bank to succeed to the trust powers of the trust company or other state institutions with which consolidated, until the Supreme Court of the United States definitely decides the question, or until the subject is adequately regulated by state legislation.

Diversification Possibilities in Bonds

(Continued from page 95)

Among the issues which may be considered sound (those carrying an A rating), in addition to the steel and petroleum issues, there are coppers, food, paper, rubber, real estate, and miscellaneous. Every classification is represented in the "A" column, this being the highest rating for which that can be said.

Among the bonds suitable for a business man's investment—those rated B1+—the great bulk is made up of issues of petroleum, paper, coal and iron, and building supplies companies.

The B1 bonds are largely building supplies, copper, petroleum, and rubber.

In the more speculative class we find the B group made up principally of copper, and sugar issues.

Not much can be said for bonds rated

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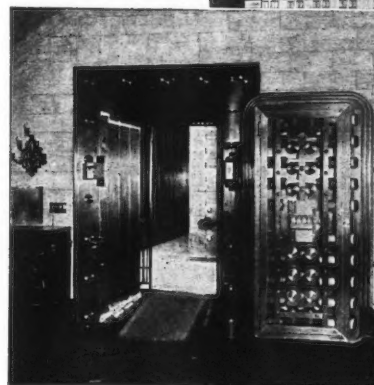
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NEW YORK PITTSBURGH PORTLAND SAN FRANCISCO SEATTLE ST. LOUIS
TOKYO, JAPAN LONDON, ENGLAND SHANGHAI, CHINA

Industrials

(00,000 Omitted)

Rating	A1+	A1	A	B1+	B1	B	C1+ and Lower	Total
Autos and accessories.	\$11.7	\$2.8	\$79.3	\$55.0	\$24.9	\$1.5	....	\$175.2
Bldg. supplies .....	....	5.8	46.8	98.0	99.8	16.8	\$19.3	286.5
Chemicals .....	....	....	34.4	6.2	10.4	3.7	....	54.7
Coal and iron.....	46.9	56.4	46.1	98.6	35.2	17.3	37.8	338.3
Copper	47.6	8.0	146.6	....	72.1	47.4	1.4	323.1
Equipments	75.4	29.2	8.0	28.1	12.7	3.8	2.8	160.0
Food	30.2	116.0	218.4	66.5	35.8	28.7	15.1	510.7
Machinery	1.0	....	31.1	50.9	15.7	2.0	3.8	104.5
Miscellaneous	25.6	67.2	336.6	384.5	197.0	189.9	49.5	1,250.3
Paper .....	....	24.9	108.1	168.0	25.1	27.8	8.0	361.9
Petroleum	378.1	148.3	83.1	239.2	85.3	34.4	21.8	990.2
Real estate .....	....	66.6	103.3	86.3	16.0	28.9	....	301.1
Retail stores	17.5	34.9	100.4	26.9	18.9	19.4	5.8	223.8
Rubber .....	....	24.6	113.8	43.9	95.8	....	6.8	284.9
Steel	573.7	142.5	164.8	20.3	32.0	11.5	39.6	984.4
Sugar .....	....	....	44.3	48.3	27.7	65.7	19.4	205.4
Textiles .....	....	8.2	32.5	5.5	33.1	28.2	22.3	129.8
Tobacco	28.5	25.8	15.0	13.5	....	....	....	82.8
Total.....	\$1,236.2	\$761.2	\$1,712.6	\$1,439.7	\$837.5	\$527.0	\$253.4	\$6,767.6

Guaranty Trust Company of New York

140 Broadway

LONDON PARIS BRUSSELS LIVERPOOL HAVRE ANTWERP

Condensed Statement, June 30, 1928

RESOURCES

Cash on Hand, in Federal Reserve Bank and Due from Banks and Bankers	\$194,976,780.16
U. S. Government Bonds and Certificates . .	103,912,259.98
Public Securities	15,131,927.91
Other Securities	22,073,952.02
Loans and Bills Purchased	480,875,291.80
Real Estate Bonds and Mortgages	1,874,249.25
Items in Transit with Foreign Branches . . .	6,589,080.02
Credits Granted on Acceptances	69,045,278.44
Real Estate	7,302,338.75
Accrued Interest and Accounts Receivable . .	10,489,535.97
	<u>\$912,270,694.30</u>

LIABILITIES

Capital	\$40,000,000.00
Surplus Fund	50,000,000.00
Undivided Profits	9,231,743.93
	<u>\$99,231,743.93</u>
Accrued Interest, Reserve for Taxes, etc. . . .	7,946,939.30
Acceptances	69,045,278.44
Deposits	\$684,799,110.14
Outstanding Checks	51,247,622.49
	<u>736,046,732.63</u>
	<u>\$912,270,694.30</u>

C1+ and under except that there are no issues of the auto and auto accessory, chemical, real estate or the tobacco groups.

The investment group of industrial bonds is made up principally of the

petroleum and steel issues. All of the tobacco issues but \$13,500,000 are in the investment class, while that sum is represented by bonds which may be classed as business men's investments. There are no tobacco bonds in the speculative

class. On the other hand, there are no sugar bonds in the highest or second-grade divisions, and only \$44,000,000 of them in the investment class, the greatest proportion being rated below B1+.

Foreign Bonds

THE table on foreign dollar issues is subdivided as in the case of the preceding tables, according to rating, and in this instance we have arranged the available issues to bring out their geographical locations.

It will be noted that a large amount of foreign dollar issues is made up of bonds of the highest rating, or A1+. The chief reason for this is that the total of \$2,400,000,000 comprises over \$1,500,000,000 of North American issues, these consisting almost entirely of Canadian bonds. It will, of course, be realized that there are no United States government bonds included in this tabulation.

The next largest item in the A1+ class is the European group, and this is made up principally of bonds of those countries which were neutral during the war, such as Switzerland, Norway, Sweden, Denmark, and Holland. It is an interesting point that all of the North American issues are listed among those of the highest grade. There are no Central and South American or Asian issues among those which we regard as of the highest class.

In the second group (those rated A1) the largest proportion is made up of the Central and South American issues. This is accounted for principally by the inclusion in that group of the Argentine, Cuban, and Panaman issues.

It will be noted that there is a very considerable amount of European issues in the second-class group. This is comprised principally of Belgian bonds and of certain cities among the neutral nations. The entire \$250,000,000 of Asian issues in this group is comprised of Japanese bonds.

In the third class—or those rated A—more than half a billion dollars out of a total of a little less than one billion dollars is made up of Central and South American issues. These are comprised principally of Chilean, Cuban, Colombian, and Uruguayan issues, and also of certain cities in those countries.

Among the bonds rated B1+, we find that a large proportion come from Europe. These are the bonds of such countries as Czechoslovakia, Finland, Italy, and Austria, and of certain European cities.

In the B1 group, practically the entire amount is made up of European and Central and South American issues, and this also applies in great part to the bonds rated B. The total of bonds rated C1+ and lower is too small to admit of comment.

Official estimates show that visitors into Canada in the 1927 tourist season spent about \$275,000,000 in Canada as compared with \$200,000,000 in 1926 and \$140,000,000 in 1924. The 1928 tourist season in Canada is now at its height.

Foreign Dollar Issues (00,000 Omitted)

Rating	A1+	A1	A	B1+	B1	B	C1+ and Lower	Total
North America	\$1,550.8	...	\$1.4	\$2.9	...	\$9.5	...	\$1,564.6
Cent. and So. America . . . . .	...	\$402.5	550.2	180.5	\$350.6	73.3	\$4.8	1,561.9
Europe	683.5	306.2	314.8	860.4	644.4	343.1	16.4	3,168.8
Asia . . . . .	...	249.6	82.0	74.5	17.7	9.0	24.5	457.3
Australasia	115.0	71.8	15.0	...	...	...	...	201.8
Miscellaneous	50.7	125.0	14.0	...	...	...	...	189.7
Total	\$2,400.0	\$1,155.1	\$977.4	\$1,118.3	\$1,012.7	\$434.9	\$45.7	\$7,144.1

Big Business and the Opportunities

(Continued from page 89)

Few things have lightened the load upon the individual as have machinery and electricity. The housewife no longer has to drudge as she did in days of old. Gas and electricity do her work while she attends to her social duties.

Big business has also revolutionized agriculture. Henry Ford says that farming is now a part-time job, and that few farmers can spend their time profitably on the farm twelve months in the year. Innumerable inventions of farm machinery have multiplied the capacity of man almost beyond belief. It has been demonstrated that with a tractor a single man can now plow forty acres of land in a day. Formerly it would have required thirty days.

What Has Labor Gained?

BIG business has also been a great aid to labor. Would it be possible for a carpenter or a brickmason or any other skilled mechanic to earn from \$8 to \$25 per day, except for big institutions? Would these men be able to go to and from their work in high-powered cars except for this? Would the standards of living be anything like as high as they are today except for these great institutions?

Few things have contributed more to the happiness and comfort of the people than what is termed Big Business. Take the telephone. There are now more than 18,500,000 telephones in use in this country, and new ones are being installed at the rate of 75,000 per month. In this country alone a man can now talk to any one of 18,500,000 people, to say nothing of communicating with Europe.

What Controls the Country?

FROM an investment standpoint Big Business has also been of great assistance to the masses. We must realize that these large institutions are now owned by the public. It is said that directly and indirectly 15,000,000 people own the corporations of this country, and one reason why demagogues do not get any farther in their abuse of corporations is because they are talking to the very people who own them. Any man who desires to do so can own stock in the Standard Oil Company or any other of our great enterprises.

It often has been asserted that great combinations of capital are now controlling this country. It is doubtful if that was ever true. Certainly it does not seem to be true now. The things that are controlling this country are brains and energy. Ownership and management are no longer synonymous terms. Big Business has given a real opportunity to the Little Man. We will pass over such marvelous successes as Henry Ford, and take as an example the automobile business as a whole, which has probably done more to revolutionize

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the business and social life of the American people than anything that has happened in many generations.

The automobile virtually put out of business the horse trader and the carriage maker, but these were replaced many times over by great automobile corporations and allied industries. The automobile industry today employs more than 4,000,000 people, many times the number ever engaged in manufacturing carriages or trading in horses. The largest corporation that ever existed is General Motors. The chairman of the board of that great institution was a few years ago a stenographer at a small salary, and the president was also an obscure clerk. It is said that this great corporation has made from its staff of

junior officers and heads of departments in less than fifteen years eighty-two millionaires. These were all young men, and the only real assets any of them had at the beginning were brains, character and energy. This is but a sample. Hundreds of other instances could be given.

It is almost unbelievable that there is more money invested in automobiles and trucks upon the highways of this country than in all our railroads.

Of all the great financial houses in Wall Street today only three or four are run by the sons of the men who founded them. Most of them are officered and controlled by men who were clerks in the employ of the founders.

The young man whose inheritance has been hardships and poverty, brains,

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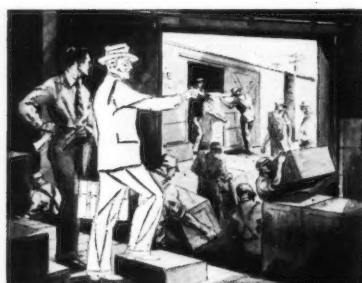
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energy and character, and who is willing to pay the price in unceasing toil and effort, is the man who is succeeding today, and the Little Man who is willing to pay this price is as certain to succeed as the sun shines. The law of

compensation never fails. There has never been a time when brains, energy and character commanded the premium they do today. This can truly be called the Golden Age of Opportunity for the Little Man!

Independent Banks and the Rate Question

(Continued from page 103)

function in accordance with sound banking principles.

Such a condition existed in Minnesota. In May of this year we found that about forty banks were still paying more than 4 per cent on time deposits, and some of them as high as 6 per cent. Most of these were banks which would least afford to pay the high rate and many of them were in "the red" in earnings.

Comptroller Sympathetic

THE Minnesota laws give the Commissioner of Banks authority to stop any practices in banks which are against "sound banking principles." That is the only law we had by which we could reach the interest rates. Acting under that law we issued a circular letter to all state banks urging them to reduce the interest rates so that their banks would be on a paying basis, and forbidding them to pay more than 4 per cent, holding that to do so under the circumstances would be against sound banking principles.

Then we wrote the Comptroller of the Currency at Washington and he mailed the following letter to all national banks in Minnesota:

The Commissioner of Banks of Minnesota has issued a circular to all state banks prohibiting them from paying more than 4 per cent on savings deposits and on certificates of deposit issued or renewed on and after July 1, 1928, and he requests the cooperation of the national banks in reducing the rate. The Comptroller is sympathetic to this movement, and will appreciate the cooperation of the national banks with the state banks and banking department as requested.

Practically all Minnesota bankers welcomed the order from the Commissioner of Banks as they knew it would improve the general situation. It gave the timid bankers, who well knew that they should reduce, an opportunity to do so and at the same time square themselves with their depositors and some directors by passing the buck to the department.

This question is a live one in many other states. Virginia has a new law making the maximum rate 4 per cent. But laws necessarily cannot cover all matters which continually come before the bank supervisors for decision. Bank supervisors owe it to the public and to the depositors to do whatever is necessary to improve the banking situation, even though there may not be a specific law governing all cases. It is clearly the spirit of all banking laws that bank supervision should stop, before it is too late, all practices which are not in accordance with sound banking principles.

Farming should be done on business principles, and where that is in evidence the farmer, barring uncontrollable contingencies, has not been and is not so bad off; but farming, like banking, is about 90 per cent management, and that has been lacking in both cases.—Commissioner of Finance S. L. Cantley of Missouri.

Possible Trends

(Continued from page 138)

cannot come anywhere near that.

That hay is going to dairy farms around Los Angeles—the distance is greater than the average trip of a loaded American freight car, but on the truck it moves direct, avoids two loadings and stays out of a big freight terminal.

The traffic has attained permanency, the railroads cannot get it, but nevertheless Imperial Valley is a gold mine for the Southern Pacific Railroad.

Out of that valley at top speed every year go from 30,000 to 40,000 cars of lettuce, cantaloupes and other perishable freight. They go by railroad. The trucks cannot get that freight. The railroad gets the business, not because its service is cheap, but because it's fast.

There is the same thing when silk trains race across America on passenger schedule. The ship could go direct from Japan to New York by Panama, but transcontinental freight service saves interest on money—ships by Panama do not.

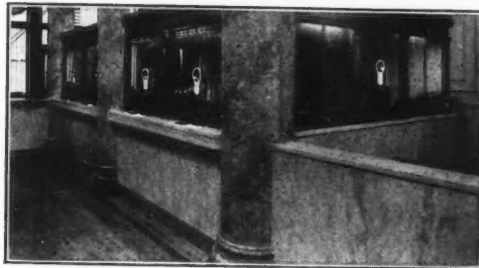
Since 1923 and the onset of hand to mouth buying, speed in freight delivery of other than perishables has taken on new importance. From now on it should become the great railroad weapon in competition with other forms of transit—and with the use of permanent concrete roadbeds for track, the elimination of curves, with lower grades, simplification of terminals, and a combination of electrification of heavy traffic stems, and higher boiler pressures and powdered coal for steam locomotives on lighter lines, the speed of freight carriage will make the railroad invincible, for the bulk of the high class freight.

Railroad men have concentrated on tonnage, not speed, because America has been in an extractive stage of economic evolution. We have been moving minerals, huge crops, great masses of forest products and building materials. For years to come that will continue—but gradually every section of the country acquires many localized heavy industries. We have been and probably will continue to be a coal driven country, but already the electric power lines parallel the railroad tracks and every power line means less haulage of coal. The gas main is now beginning to stretch across the country.

Pipe lines to carry natural gas from Amarillo, Tex., to Denver, Colo., mean less coal handled from Trinidad, Colo. When the natural gas is gone, the same pipe lines may carry artificial gas made near the mine.

Already the oil pipe lines of the United States convey an annual tonnage equal to half the tonnage of the French railroads. The mileage of these lines is four times the mileage of British railways. Our high tension main line electric power lines have grown 26,000 miles in the last few years, while railway mileage has actually declined a little bit.

Economists have probably overestimated the future of heavy bulk freight to the railroads, just as they have done in their forecasts about waterways. Go



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back ten years and in all waterway discussion the reader will find the assumption that the water carrier will take the heavy freight. That is true on the ocean and Great Lakes, but it is equally true that ship lines operating from the Atlantic to the Pacific Coast can now make a twenty-one-day trip, and that is one of the reasons why transcontinental

freight movement by rail has to be speeded up.

Looking it all over, past and present, it appears that the safest anticipation for American transportation is that the vast bulk of it will continue to move by rail, but it will move much faster, and higher class freight will become of greater importance.

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The Call Loan Market

RAPID changes in rates on the call loan market are attributed by New York banks to the large amount of money supplied the market from outside of New York. Funds from the interior are pictured as scrambling for high rates when they rise, but at times forcing low rates through the abundance offered.

The absence of effective means of controlling the supply of funds put on call by lenders other than the banks, especially corporations and individuals, is being discussed. Leading banks are insisting that the Federal Reserve System be supported in its efforts to stabilize call money conditions.

"An important factor in the present situation," says the *Guaranty Survey*, published by the Guaranty Trust Company of New York, "is that, by reason of a large accumulation of money reserves in the hands of corporations and individuals, the control of credit has to some extent passed from the banks. In the present call money market there is probably \$1,500,000,000 loaned on call by corporations and individuals out of their own funds, in which they act simply as agents for them in placing the loans, and this money is not subject to bank regulation in any manner.

"**T**HE fact that such a large proportion of call money is supplied from outside of New York adds to the instability of the market. Out-of-town lenders ordinarily decide to call in or put out money on the basis of the rates prevailing at the close of the previous day. By the time their funds or their call for funds has reached the market, conditions may have changed materially, but the lenders are not sufficiently close to the situation to adapt their actions to rapid changes.

"The banks suffer from this situation in that these funds are withdrawn from their deposit accounts, where they could be used profitably and directly to meet the needs of the business situation. But the lure of a 6 or 8 or even 10 per cent return over the normal deposit rate of 2 per cent, with the small handling charge imposed by the banks, has been too strong to be resisted, and this great factor of uncontrolled accumulated funds has been the most important element in the recent money situation.

"If in the regular course of events these funds are called as the normal autumn demand for use in business increases they are liable to be withdrawn in large amounts and without warning presenting another unsettling factor in market conditions. Until this force is brought under control in some manner, violent and apparently unreasonable fluctuations in the money market are always possible. The banks cannot, of course, be properly charged with responsibility in such a situation unless they are in control of all the elements that compose it. There is a growing sentiment to the effect that some plan of control must be devised to meet the problems presented."

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THE only absolutely effective check upon credit expansion as seen by the National City Bank of New York is by making credit more costly to all borrowers. In its survey the bank stresses the importance of sustaining the Federal Reserve authorities. Discussing the flow of funds from the interior to the call money market the survey says:

"The growth of this loan account unquestionably weakens the effectiveness of Reserve policy and to an extent the prestige of the Reserve System is involved. What claim will these borrowers have upon anybody able to give help is they should find themselves in need of it?"

"Not one dollar of new credit is created by bidding up the rate, or can be created without additions to the reserves. Whatever the stock exchange gets by bidding higher rates is taken from other uses, and surely nothing could be more absurd economically than that working capital should be taken from the industries to maintain the level of brokers' loans. Nothing has been added to the productivity of the industries or the earnings of the corporations by the increase in brokers' loans in the last two years, and it is entirely irrational that excesses of speculation shall be made to burden industry.

"The member banks have two strong reasons for not making stock exchange loans at a time when they are borrowing of the Reserve banks. In the first place, it is contravention of the law and their obligations to the Reserve System, of which they are a part; and in the second place, it is unsound banking to sacrifice eligible paper for the purpose of lending upon ineligible paper. The successful operation of the Reserve Act contemplates that the member banks shall keep themselves supplied with eligible collateral for their own protection and that of the communities they serve.

"EVERY bank and business house, and every industrial and business interest should desire that the authority of the system in the discharge of its lawful functions shall be sustained. If the reserves of credit can be drawn upon indirectly, or forced out by stringency resulting from demands which are not recognized by the Reserve Act, they can be drawn upon indefinitely. Speculation and inflation create never-relaxing demands for more credit, until the collapse comes.

How money conditions affected the stock market during the first six months of 1928 is pointed out by the Central Trust Company of Illinois in its mid-year digest of trade conditions.

"Trading on the New York Stock Exchange for the half year," says the bank, "included 420,000,000 shares, an increase of 54 per cent over last year, and \$1,701,000,000 worth of bonds, a decrease of 14 per cent from the bond sales of the first half of 1927. Bonds called for payment in advance of maturity reached a total of \$1,121,000,000 for the six months, an increase of 73 per cent over a year ago, reflecting the favorable money rates in effect for most of the period."

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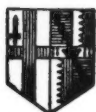
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DO not hesitate to charge for services performed. When you received 1 per cent per month on loans you could afford to lose money in other departments of your bank, but now that interest rates have decreased, it is imperative that service charges be made.—E. A. Culbertson, president, Utah Bankers Association.

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Of many banks it can positively be said that failure was due almost entirely to business contracted solely for the purpose of creating larger volume. Volume alone is as treacherous as the lure of the Lorelei.—Superintendent of Banks F. R. Smith of South Dakota.

Mistaking Credit and Capital

SECURITY credit must be curtailed, as the credit of the nation has been expanded almost to the maximum, according to Melvin A. Traylor, president of the First National Bank of Chicago and former President of the American Bankers Association.

Chicago views of credit are particularly pertinent. The Federal Reserve Bank of Chicago took the lead in the three successive increases in rediscount rates, which has brought the reserve rate up to 5 per cent since the first of the year, when it was 3½ per cent. Says Mr. Traylor:

"The present situation of tight money is not an artificial one—it is fully justified by economic law. It will continue as long as stock exchange securities continue to be dealt in as actively as they now are and continue to use the credit they have been using recently. This has been increasing at more than \$500,000,000 a year for the last two and one-half years, while the Federal Reserve ratio has been moving down and the borrowings of member banks have been going up. In the last year the United States has lost \$500,000,000 in free gold.

"The nation has been mistaking the richness of credit for the richness of capital. Installment selling and bond credit now total more than \$6,000,000,000. This credit must be paid. A day of reckoning must come. There is plenty of credit for business on sane lines, but security credit must be curtailed."

New Book

PROBLEMS IN INTERNATIONAL UNDERSTANDING. By H. H. Gowen, R. D. McKenzie, and others. Edited with a foreword by Charles E. Martin and Edith Dobie. Published by the University of Washington Book Store, Seattle, Wash. \$1.50.

"Problems of International Understanding" is the product of several authors who are studying international conditions so as to better the understanding of people of different nations. It is divided into three parts, "The Pacific Area," "The International Mind," and "The International Technique."

Although no final solutions are offered for the problems, the papers are so constructed that the reader has no difficulty in arriving at his own conclusions as to a proper solution.

The lecture, entitled "A Clinical Study of International Relations," gives an excellent description of the men and the places where international work is actually being carried out.

The best time to collect a loan is to collect it just before it is made; that is, to have the loan when it is made in such shape that there will be no question about its collectibility when it does mature.—Bank Commissioner James Shaw of Texas.

Federal Reserve Policy Is Fully Justified

By CHARLES E. MITCHELL
President, National City Bank of New York

IN my opinion the Federal Reserve authorities are fully justified in the policy they are pursuing in imposing restraint upon further expansion of bank credit. We have had a very great expansion of credit in this country in the last five years, obviously made possible by continuing importations of gold. This gold movement has been reversed, and the sum of net exports in the past eleven months is approximately \$600,000,000. There can be no question among bankers that this loss of gold is bound to affect banking policy. We cannot go on expanding credits as though reserves were still increasing.

THE Reserve banks have not deliberately made money tight; on the contrary, they have modified the natural effects of reserve losses to member banks by releasing reserve credit. There is nearly \$1,000,000,000 more of reserve credit outstanding now than there was at this time last year. The statement of July 3 showed approximately \$400,000,000 more of reserve credit outstanding than at the beginning of last March. If money is tight now, what would it have been if the Reserve banks had not given this relief?

They cannot, however, ignore their own loss of reserves. They are charged with the responsibility of keeping at all times a sufficient reserve of credit to amply safeguard the entire credit and business situation. They have raised the discount rate to 5 per cent, which is notice to everybody that the supply of credit is not as abundant as heretofore. The member banks which must use Reserve credit are under the necessity of raising their rates. Moreover, since member banks can obtain Reserve credit only upon eligible collateral, which does not include stock exchange collateral, their loans upon the latter necessarily are restricted. It is a violation of the intent and spirit of the Reserve Act for the member banks to lend upon stock exchange collateral while at the same time drawing upon the Reserve banks for credit.

HOWEVER, rates for money at the Stock Exchange have been high enough to attract large sums from out-of-town banks and private lenders. There has been an important shift of funds, as shown by the fact that loans to brokers since the first of the year by New York member banks on their own account have declined from \$1,511,000,000 to \$820,000,000, for out-of-town banks have increased from \$1,371,000,000 to \$1,602,000,000, and for others have increased from \$928,000,000 to \$1,771,000,000. No new credit was created in this shift, except as it may have been

obtained indirectly from the Reserve banks, but no doubt the shifting of funds has tended to increase the stringency everywhere, and raise rates upon funds for all purposes.

IT cannot be too strongly emphasized that this stringency is not chargeable to Reserve bank policy, for under the law reserve funds are intended not to be available for Stock Exchange loans. Furthermore, it is of the greatest importance that not only bankers but business men shall realize that when every dollar of increase in outstanding bank credit is coming from the Reserve banks, the latter are entitled to full co-operation in their efforts to protect their reserves.

It is in the interest of stability for all values, including the values traded in on the Stock Exchanges, that the Reserve banks shall maintain control of the fund of credit confided to their care. And in this connection it is of very great importance for every borrower who has a marginal account in the street to consider the significance of the above increase in loans for "others. These loans are largely by corporations having funds temporarily idle, and have increased in a period when business has been not quite up to par. In the event of a business revival, even such as usually occurs in the fall, these funds are likely to be largely withdrawn, in which event there will be no funds to replace them unless Reserve funds are released. The loans from "others" are not means of solving the credit stringency.

Understand that I am not criticizing Investment Trusts as a whole; but I rather agree with the view of the economist of one of our national banks, that we have imported a British instrumentality and attempted to apply it too rapidly and on too large a scale within too short a period of time.—Superintendent Frank H. Warder of New York.

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WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR and the READER

Interest on Deposits

IN this issue of the JOURNAL there is an article on the vital subject of interest on deposits, one of a series by W. R. Morehouse of the Security Trust & Savings Bank of Los Angeles. The facts he presents are of a character to challenge the attention of every banker, and to put many a banker on the defense, because the author questions the wisdom of practices that are common.

The JOURNAL, desiring to present the



whole story of the subject of interest on deposits, invites bankers who have any ideas on the subject to write us concerning them. We would like to get the reaction of many bankers to the questions that are raised in this series of articles.

If bankers think that the practices in vogue are unsound it would be helpful to have them say so; if there is justification for custom of giving away interest that is not earned we would be glad to have a logical defense of the practice.

Put History to Work

THE State-Planters Bank & Trust Company of Richmond, Va., is distributing a brochure of a series of newspaper advertisements which are based on the history of the Old Dominion.

The writer put history to work to bring attention to the bank, and as Virginia is rich in romance that has an economic background the little sketches give striking glimpses into a past of absorbing interest. There, for illustration, is an advertisement headed, "The Iron Industry in the Early Days," illustrated by a picture of Col. Alexander Spotswood, Lieutenant-Governor from 1710 to 1722, in which we are told that

"During his term, Spotswood did much to foster progress, and under his leadership, alone of all the Colonies, Virginia had no public debt.

"When he fell into disfavor with the clergy and was removed from office, in 1722, he retired to his estate in Spotsylvania County (named for him). He entered into partnership with Robert Cary and engaged largely in the manufacture of iron, and it is noteworthy that for the first time pig and bar iron were made in America.

"In command of the troops raised by the Colonies to assist England in the attack on Carthage, Spotswood died suddenly upon the eve of embarkation at Annapolis, Maryland, in June, 1740. He was buried at Temple Farm, his country seat near Yorktown, which in later years became famous as the place where Cornwallis met General Washington and signed the Articles of Capitulation."

"Virginia has millions of tons of iron ore but hardly a blast furnace in operation due to adverse freight rates, and competition with higher grade coke ore. The establishment of a contemplated coke plant should revive the industry."

Showing Them How

"MULTITUDES would save—if they knew how. The following letter to the Minnesota Loan & Trust Company, of Minneapolis, from one who does know how to manage and to save makes a good bank advertisement, because it gives to many just the information they need:

"We have been married nine years and during these entire years we have never had a year that we did not save something on our income, although we have had some losses on investments which has cut down our income the past few years, yet we can say we have never saved less than \$500 a year, and some years as high as \$1,800, when our income on certain investments was quite large.

"We have always kept an accurate record of all our expenditures and can show for the entire years just where our money went, and by averaging these years we could very much recommend the following budget for an income of \$2,100 per year (this not including our income from other investments):

Food	\$540
Auto	120
Taxes	40
Clothes	200
Church	36
Insurance	100
Fuel	100
Telephone	18
House Furnishings	125
Vacation	75
Incidentals	60
Christmas Expense	30
Doctor	100
SAVINGS	514
	\$2,100

"To this we might say that we have never purchased anything on the installment plan, excepting bonds or mortgages, as we are fully convinced that we can purchase to far better advantage by paying cash. We also purchase a great deal of clothing and food in larger quantities, thereby also making great savings."

Posting the Offenders

THE bankers of Phillips County, Arkansas, are displaying this notice in their corridors:

The following Resolution was passed unanimously by the Phillips County Bankers' Association:

"The names of customers who make a practice of issuing checks against accounts and not having on deposit funds to take care of such withdrawals, will be posted with the Clearinghouse, and all the banks in the County will refuse to accept deposits from those customers."



"This is not intended to reflect on any of the regular customers who maintain balances, but it is to eliminate the account which is undesirable and burdensome to the banks and a menace to the community."

Death for Bank Robbers

"THE Colorado Bankers' Association adopted a resolution asking the session of legislature to make bank robbery and hold-up a capital offense.

"With the increasing number of bank robberies and the utter disregard for life held by the bandits the request is not unreasonable," says the *Mountain States Banker*, "Every bank robber is a potential murderer. He will shoot innocent bystanders as readily as he will shoot the banker who resists his attempt to loot. He has chosen a profession which is not only parasitic, but poisonous as well. Too shiftless to earn an honest living and too greedy to be satisfied with legitimate earning capacities, he seeks to scoop a fortune in a few moments behind the persuasion of a gun.

"The banker has long been regarded as the most prosperous man of the community. People have thought the bankers' profit tremendous, his work easy and his business hours enviable. Now there comes a time when the profits of the banking industry are insignificant compared to the returns of other business, from which the law prohibits the banker to invest. The banker must not only assume the responsibility of guardianship for the money of the community, but he must also take the risk of being murdered by those who loot rather than labor.

"With the speedy means of transportation, the intricate defense of criminal lawyers and the infrequent apprehension, can the state do less for the bankers, of whom so much is demanded, than declare bank robbery a capital offense?

"The penal institutions are sanatoria for crooks. In these institutions the crooks plan more complicated schemes of fraud. The state provides maintenance while the crook plans to operate again.

The Iron Industry in the Early Days

COLONEL ALEXANDER SPOTSWOOD
*Lieutenant-Governor
Jan. 18, to September 1722*

During his term, Spotswood did much to foster progress, and under his leadership, alone of all the Colonies, Virginia had no public debt.

When he fell into disfavor with the clergy and was removed from office, in 1722, he retired to his estate in Spotsylvania County (named for him). He entered into partnership with Robert Cary and engaged largely in the manufacture of iron, and it is noteworthy that for the first time pig and bar iron were made in America.

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STATE-PLANTERS BANK-TRUST & CO.
RICHMOND, VIRGINIA

CORPORATE BANKING - TRUSTS - SAVINGS - INVESTMENTS

[The State-Planters Bank-Trust & Co. is a corporation organized under the laws of the State of Virginia, and is authorized to do a general banking business, and to act as a trustee, and to invest the funds of its depositors in any lawful manner.]

PROTECTIVE SECTION

AMERICAN BANKERS

ASSOCIATION JOURNAL

Detective Agents
The William J. Burns International Detective Agency, Inc.

Counterfeit Bonds Custom Made

THREE crooks started a simple but ambitious counterfeit bond swindle in 1926 against bankers and business men throughout the country. Their success was almost assured at the outset because of the custom of certain concerns in selling to any individual who would pay the price of engraved borders which were authorized for other bond issues.

For the small outlay of twenty dollars these crooks secured one hundred sheets bearing genuine engraved borders, and this was sufficient to produce a hundred \$1,000 bonds bearing a face value of \$100,000!

In February, 1928, a bond for which a large eastern trust company was trustee and agent, was returned by a Chicago investment house for an opinion as to whether it was genuine. Although a forgery, this bond so closely resembled the genuine that even the bankers who had floated the issue had been trading in similar forgeries for several months.

In another instance this band purchased borders and falsified an issue for which a western bank was trustee. After having the body of the bonds printed they were presented direct to the trustee bank where a loan of several thousand dollars was promptly advanced. Investigation later revealed that these would-be counterfeiters had issued more than twenty-eight series of spurious bonds in about two years. All their paper showed engraved borders which were purchased from the same firms which made the original borders. According to custom, these firms owned the plates and also printed the body of the original

bonds or, after engraving the borders, allowed the bonds to go elsewhere for printing their text.

Virtually all the safety in the makeup of security certificates is in the engraving thereof, and a counterfeiter's chief difficulty is not in seals or signatures but in reproducing these skillfully engraved borders. Counterfeiters occasionally find engravers who are capable of producing a remarkable likeness to the genuine pattern. His work might be an improvement on the original or vice versa, but the safeguard rests upon the fact that it would not be identical.

These forgeries would have failed if the orders for engraving the original issues had been placed with houses of such established character as would make them fully responsible for loss due to errors and fraud. There are reliable engravers who guard their plates and borders in the same zealous manner that the United States Government follows in protecting its engraving equipment and securities. Unless those interested in the issuance or floating of securities adopt more stringent measures, especially in the selection of engravers and care of their plates, such frauds will continue to exact a heavy annual loss from the investing public.

Another case which was recently investigated by the Guaranty Trust Company of New York developed that the same border and background had previously been used on forty-two other issues. The slight economies effected by the issuing companies dealing with unreliable engravers thus facilitated frauds which cost the public several millions of dollars.

Contents Noted by

President _____
Vice-President _____
Cashier _____
Assistant Cashier _____
Paying Teller _____
Receiving Teller _____
Guard _____

AUGUST, 1928

Vol. XXI No. 2

Fake Priests Swindling Banks

A. G. PATTERSON (2989) who, posing as a priest or minister, has succeeded in defrauding member banks throughout the country, and whose picture last appeared on page 3 of the June, 1928, issue of this section, is again active on the western coast.

As late as July 3, 1928, he entered a Seattle bank dressed in the garb of a Catholic priest, and requesting \$200 worth of American Express travellers checks, presented a check drawn on that bank, signed "Rev. E. H. Dillon." When the teller left the cage to check up the account in the bookkeeping department, the operator succeeded in getting possession of the travellers checks, which were already made out, and left the bank. The teller's investigation of course disclosed that the bank did not carry the account of the Rev. Dillon, but by that time it was too late.

We are again reproducing Patterson's photograph, also a specimen of his handwriting, in the hope that it will assist in his speedy capture. He is 34 years of age, 5 feet 8 inches tall, weighing about 170 pounds; medium build;



A. G. Patterson

has dark hair and eyes and a pleasant, friendly manner.

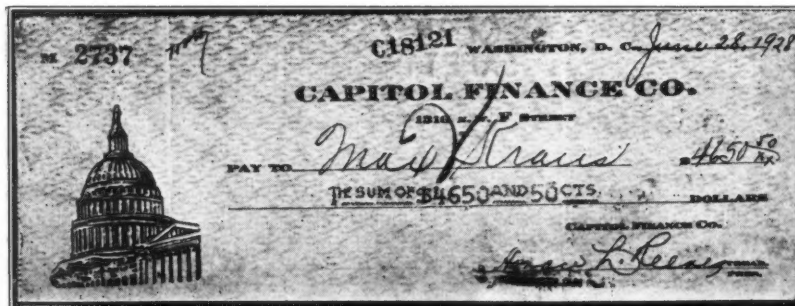
Rev. E. H. Dillon

ANOTHER operator using the name JOHN P. GORMAN (3298) entered a St. Paul bank dressed as a Catholic priest

and presented a check to one of the tellers drawn to the order of cash in the amount of \$1,750 on a form issued by the same bank. The check bore on its face the forged O. K. initials of one of the bank's officers. Deceived by the appearance of the operator and the fact that the check appeared to have been O. K'd by an officer, the teller had two drafts totaling \$620 made out to the order of two Catholic institutions designated by Gorman and gave him the balance in cash without checking up to see if the bank really carried the account of John P. Gorman or verifying the O. K. of the officer. The fraud was subsequently discovered by one of the bookkeepers, but of course by this time the operator was safely on his way and to date has not been apprehended. This article calls to mind many warnings published in previous issues of this Section in which it was suggested that when an officer of a bank O. K'd a check that this check should not be given to the customer, but should be handed to the teller who is to pay out the money by some employee of the bank. Gorman wore a large piece of plaster on his left cheek which may or may not have been necessary and is 45 years of age, 6 feet tall, weighing 200 pounds; having medium dark complexion, dark hair, smooth-shaven.

Schwartz Gang Continues

DURING the past few weeks the Aaron Schwartz gang has succeeded in collecting over \$7,000 from two New York banks by the same method of drawing against uncollected funds as was described in detail on page 3 of the June issue of this Section. One of the fraudulent checks used recently is reproduced herewith. The arrest of these operators is long overdue, and we request member banks in the vicinity of New York and Chicago to assist in their apprehension by calling the particular attention of their tellers and officers who open new accounts to our June warning, also the old admonition not to advance funds on uncollected items.



One of the fraudulent checks recently passed by the Schwartz gang

Kansas City Bandit Wanted

AT 9.20 a. m. June 14, 1928, while the Republican National Convention was in progress in Kansas City, Mo., eight bandits held up the Home Trust Company of that city and succeeded in getting away with approximately \$20,000 before they were routed from the bank by the release of gas bombs by one of the employees. In making their escape they shot and killed a traffic policeman on a nearby corner, but in doing so passed so near his semaphore signal that the handle from the right front door, together with the lock, was torn off the car. With only confused descriptions and the slim clue obtained through the finding of a number on the lock, the police were



Sam Stein

able to locate the owner of the car. On information supplied by him they arrested four of the bandits and obtained confessions from two which not only implicated all the others involved in this holdup, but involved four of the Home Trust Company bandits as having perpetrated the holdup of the City Bank a short time previous. At least two of the bandits are known to have come from New York, and one of them was arrested in that city and has now been returned to Kansas City for trial. Another, SAM STEIN (3301), is still being sought by the New York and Kansas City police. Therefore we are publishing his picture, and any information concerning his location should be transmitted to the nearest office of our agents.

Check Raising Twins Arrested

ACAREFULLY thought out scheme to defraud banks through the medium of raised checks was frustrated when ALEXANDER MUNRO (3302), JOHN MUNRO (3303) and GERALD McLAUGHLIN (3304) were arrested by the New York police cooperating with our agents:

Alexander and John, who are twins, were salesmen for a check-writing machine company and in the ordinary course of their work demonstrated many times each day to prospective customers how easy it was for them to alter checks written with a machine other than their own. Evidently deciding that their ability entitled them to a greater monetary reward than was to be obtained through commission on their sales, they devised the following scheme.

They first made a small purchase in each of several New York department stores and had a confederate, using the name M. C. POWELL (3305), rent office space in a downtown building. Powell returned the purchases through the mail, requesting that a refund check be forwarded to him. When the department store checks, which averaged a little over \$1 each, were received they were raised to amounts ranging from \$95 to \$14,500, and were deposited by Gerald McLaugh-

lin to the credit of accounts opened by him, under fictitious names, in two New York banks. Arrangements were then made over the telephone with a brokerage house for the purchase of negotiable stocks or bonds, and one of the twins would engage a Western Union messenger, send him to the bank with checks drawn to the order of the brokerage house, for certification, and would then have him pick up the securities. One of the twins intercepted the boy as he left the brokerage house and accepted delivery of the bonds.

Due to the promptness of one of the defrauded banks in reporting their loss, and through cooperation furnished by the Western Union Telegraph Company, our agents, assisted by New York police, were able to recover over \$8,000 in Liberty Bonds which had been purchased through an account in another bank, and to effect the arrest of John Munro within twenty-four hours after the matter was reported. McLaughlin was later arrested and his testimony before the grand jury implicated Alexander Munro.

The twins were convicted on July 23 and on July 27 they were sentenced to serve 5 to 10 years in the house upon the hill at Ossining, N. Y.

The care used by Alexander and John

Munro to confuse identification should they be apprehended is unusual. However, in another instance blank signature cards were obtained from a branch office of a large New York bank, and the operator had a confederate fill in these cards with a fictitious name and other information required to open an account. The operator then went to another branch of the same bank and requested that an account be opened, giving the name already filled in on the card by his confederate. He waited until the officer's attention was diverted and then switched the cards already filled out which he had in his pocket for the blank cards given him by the bank officer. The bank official was able to furnish an excellent description of the man who sat at his desk and whom he thought had filled in the signature on the blank card, but when this man was later arrested he was able to prove conclusively that he could not possibly have placed any of his writing on the card in spite of his positive identification by the bank official. Fortunately in this case the confederate made a confession, but care should be exercised to see that depositors sign signature cards in the presence of bank officers.

Do Not Invite Loss

INVESTIGATION of many losses recently reported by member banks indicates a tendency on the part of bankers to assist criminals, who operate against them, through carelessness in not investigating new accounts and in giving information regarding accounts over the phone.

The operators apparently know and pass on to their fraternity brothers the names of banks which will accept a deposit from anyone who walks in, issue a pass and check book, accept fictitious names and addresses, and make no attempt to check references. The success of many recent operations is directly attributable to this cause.

A striking example of the inside working knowledge which the criminals who prey on banks have is brought out in a statement made by a recently arrested operator. When asked how information regarding certain accounts was obtained he said that by calling the head bookkeeper of a bank about 11.30 a. m. the bookkeeper would be so busy he would give any information requested.

Not only to protect themselves, but to prevent loss to others through the use of their forms, members are again urged not to give pass books, check books or cash to strangers until their credit is established and their references checked, and to give information over the telephone only to known customers.

Our Agents Arrest Yeager



M. M. Yeager

M. M. YEAGER (2844), intelligent and versatile forger, was apprehended by our agents in Los Angeles, Cal., on July 12. Although he committed most of his depredations in Los Angeles, he defrauded banks as far east as Missouri, and it has been impossible to foresee what modus operandi he would employ next or where he would operate. Yeager's newest scheme was

endeavoring to purchase travelers' checks, making payment with one of his expertly forged instruments drawn on some bank other than the one at which he appeared. Yeager's operations were so numerous and successful that he was featured on the first page of this Section in May, 1928.

Yeager's photograph is again reproduced, and other methods used by him are described in our May issue. It is suggested that all banks who were defrauded by this criminal have their local authorities lodge a detainer warrant with the police of Los Angeles. His description follows: Between 45 and 50 years of age, 5 feet 8 inches tall, weighing 150 to 160 pounds, medium complexion, blue eyes, brown hair, smooth shaven and dresses fairly well.

Bogus Bank Drafts

THE Bank of Chelsea, Chelsea, Okla., reports receiving drafts ostensibly issued by that bank, and drawn on the Merchants LaPleve National Bank of St. Louis, Mo., signed M. L. Roe, Assistant Cashier. One was numbered 2866, and gave the payee's name as W. R. Jones. The Chelsea bank has not done business with the St. Louis, Mo., bank for the past fifteen years. Evidently some criminal has secured possession of some of the old forms previously used.

Raised Letter of Credit

ALFREDO ANTONIO BIANCHI (3306), alias Alfredo Biachi, alias Alberto Nechi, visited the Banco De Londres Y Mexico, Mexico City, on March 20, 1928, and purchased a letter of credit issued by that bank and numbered 437 in the amount of \$1,000. Since that date Bianchi accompanied by a MRS. CACCIA (3307), who may be his wife, has visited London, England; Barcelona and Madrid, Spain, and recently was reported in Port Arthur, Ontario, Dominion of Canada, and has realized over \$16,000 through having raised the original amount of the credit letter. It is expected that this operator will attempt to enter the United States, and members are warned to pay particular attention to the number appearing on any letter of credit bearing the name of the Mexico City bank. For the protection of the member banks, we are publishing in this issue a photograph of



Alfredo Antonio Bianchi and Mrs. Bianchi

Bianchi and his woman companion taken in 1924, but said to be a good present likeness. Description of the operator is not available at the present time, but we do know that he was born on April 6, 1883, which would make him about 45 years of age.

Wanted?



C. C. Loughery

C. C. LOUGHERY (3309), alias Loughy, alias J. F. O'Donnell, has been arrested by our agents in Baltimore, Md., and returned to Pittsburgh, Pa., where he was accused of forging the signature of a depositor of one of the banks in that city. The smoothness and skill with which he negotiated the forgery might indicate that he has had previous experience and we are therefore publishing his picture in this issue. Any members recognizing Loughery as a man who defrauded them, are advised to have their local police lodge a detainer warrant at Pittsburgh, Pa. His description is: 30 years of age, 5 feet 2½ inches tall, weighing 147 pounds, medium dark complexion, black spot in right eye.

DAN CUNNINGHAM (3310), whose true name may be Cleo Malone, has been arrested by the police of Santa Monica, Cal., on a charge of raising an \$8 salary check to \$80. We are furnishing his description, and any bank recognizing him as having defrauded them is advised to have their authorities communicate with the police of Santa Monica, Cal. He is 35 years of age, 5 feet 5 inches tall, weighs about 160 pounds, well built; has

medium complexion, dark brown hair, and his upper lip is rather prominent.

CHARLES E. HARRIS (3308) was arrested in Buffalo, N. Y., on July 10, when he was recognized on the street by the clerk of a clothing store on whom he succeeded in passing a bogus check on a previous visit to Buffalo during March. A search of the hotel room occupied by Harris and of a parcel checked by him revealed that he had twenty-two check books on banks all over the country, and thirty-five sets of engraved business cards with credentials, letterheads, etc. Each set of cards and letterheads bore the name of some nationally known corporation or of a prominent brokerage house in New York, Philadelphia or Chicago.

We have no handwriting at this time and the aliases used by Harris are too numerous to mention, but we are publishing his photograph, and members recognizing him as a person who defrauded them are advised to make complaint to their local police and instruct them to communicate with the police of Buffalo, N. Y.



Charles E. Harris

Good Bandit Trails

THE prompt and efficient action of a Clarkdale banker, as reported in the following newspaper article, has led one bank robber to his grave and will lead his accomplice to the Arizona State Penitentiary, where he will probably serve from twenty-five years to life:

"A daring attempt to hold up the Clarkdale branch Bank of Arizona was frustrated by the swift action of David Saunders, the cashier, who shot and killed one of the two bandits as they were fleeing with \$50,000.

"The other bandit, losing heart at the sight of his dead accomplice, was easily captured and the currency was recovered."

The dead bandit was known as **BILL FORRESTER** (3299) and his accomplice, who gave the name of Earl Nelson upon his arrest, has been identified as **JOE STANLEY** (3300) who was wanted in connection with the holdup of a Sapulpa, Okla., bank in January, 1927.

Charity Solicitor Raises Check

AN unknown operator posing as a solicitor of the Blind and Disabled Veterans Association, is reported from Philadelphia, Pa., where he defrauded a bank by raising to \$100, a \$10 check which had been donated to the association by one of their depositors. The depositor was given a printed receipt bearing the name, Blind and Disabled Veterans Association, W. J. Kelty, President; Manager Wm. J. Stewart, Secretary-Treasurer. When receiving the check from the bank's depositor, the operator wrote a note to the cashier of the bank on which the check was drawn, requesting that it be certified as a convenience. When presenting the check he displayed the note requesting certification and then asked the teller if he would give him cash. This request was granted and it was not until later it was discovered the check had been raised.

The operator is 35 years of age, 5 feet 9 inches tall, weighing 170 to 180 pounds; has reddish complexion, light brown hair, broad shoulders, large nose; smooth shaven; wore a dark blue suit, straw hat, and talked very rapidly.

Correction

ON page 3 of the July, 1928, Section, the name of **G. W. LUFKIN** appeared as having been arrested for passing a bogus check in Parkesburg, Pa. The correct name of the man under arrest is **CHARLES HAHN** (3266), and he was charged with forging the name of **G. W. Lufkin**. Mr. Lufkin is a citizen of Parkesburg, Pa., and a respected member of the community, and it was through error that his name was carried in the previous issue.

Warnings

H. E. BARSTOW (3311), alias H. M. Singer, is reported having defrauded merchants in Erie, Pa., through checks drawn on a bank in Des Moines, Iowa, where he has no account. This operator is of good appearance, a fine talker, well dressed, weighing about 180 pounds and bearing the usual Masonic credentials. We are reproducing a specimen of his handwriting.

H. M. Singer
H. E. Barstow

WILLIAM BENTLEY (3312) is reported to have traveled through the states of Ohio, Florida, and Illinois, last reports placing him in Wisconsin, and he has left a trail of bogus checks behind him, all of them being drawn on a bank in Iowa. He is reported to be travelling in an old Maxwell coach, disc wheels, painted black and having lace curtains in the rear window. In addition to the name Bentley, he has used the aliases Miller, Bloom, York and Bennett. In all of his negotiations so far, the payee's surname has been the same as the signature on the check, the christian name being different. He seems to be partial to the first name of William as payee, and the initials F. W. as the signer of the check. Bentley is 40 years old, 5 feet 7 or 8 inches tall, weighing 165 pounds; has dark hair. He is accompanied by a woman 40 years of age, a little shorter than Bentley, weighing about 145 pounds; having blond hair, blue eyes and fair complexion. A boy about 9 or 10 years old, wearing glasses, and whose name is said to be James, nickname "Smoke," also travels with them, and the woman has a cream colored toy pomeranian.

Forged Introduction

A MAN using the name F. J. COCHRAN (3314) entered a Wichita Falls, Texas, bank and presented what purported to be a letter of introduction from the Chatham Phenix National Bank and Trust Company, New York City, signed by Assistant Vice-President William S. Wallace. He then cashed two checks bearing the lithographed name of R. H. Hoe and Company, New York City, with the name of the Chatham Phenix National Bank and Trust Company printed in red ink on the lower left hand corner. The two signatures on the check appear to be Drake and Pendleton. The check is the same form as is used by R. H. Hoe and Company, except that the name Chatham Phenix National Bank and Trust Company does not appear on any R. H. Hoe and Company checks, as the latter does not carry an account at

the said bank. Furthermore, no one named Drake or Pendleton is authorized to sign checks against their account in any bank. The Chatham Phenix National Bank and Trust Company do not issue blanket letters of introduction, and the letter presented by the operator is a forgery. Mr. Wallace does not know anyone named F. J. Cochran. This swindler is still in possession of the forged letter of introduction and will undoubtedly attempt to realize on it again. He is about 30 years of age, 5 feet 8 inches tall, weighing 160 to 175 pounds; chunky build; has sallow complexion, a broad face and fleshy hands with short round fingers; speaks with a foreign accent.

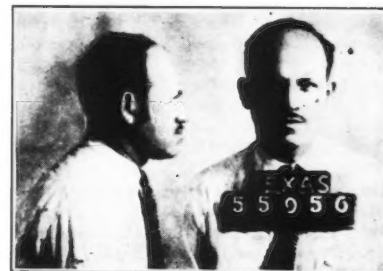
A woman using the name of MRS. MARY CHASE (3313), who poses as the widow of Dr. Chase of Los Angeles, Cal., and claims relationship with the Chase family of the Chase National Bank, is reported from Huntingdon, Pa., where she borrowed money from her landlady, saying she needed about \$25 to pay an automobile repair bill, and that she would repay her landlady within a week. This woman is accompanied by her daughter, Cheri, and as it is thought that she might be touring the country in an effort to defraud banks and others, this information is given here for the benefit of those who might come in contact with her. She is said to be traveling in a Willys-Knight sedan with California license No. 821-144.

A Montpelier, Vt., bank reports that a bogus check operator using the name FUFT FLUW (3315), has recently been active in that vicinity. They describe him as about 24 years of age, 5 feet 6 inches tall, weighing about 140 pounds; with curly hair, brown eyes, and dark complexion. He claimed to be a Virginian, and as identification showed a membership card bearing his picture, which he stated had been issued by the Harvard Polo Club. He also had a letter from the United States Ambassador to a foreign country and while in Vermont he is reported to have visited the governor and obtained the governor's business card which he undoubtedly will use as a means of identification in subsequent bogus transactions. Investigation discloses the fact that there is no organization known as the Harvard Polo Club.

A bogus check passer whose true name is believed to be B. E. JACOBSEN (3316), is operating under the name of Rumin Product Corporation. He succeeded in defrauding a New York bank where he opened an account under the corporation name, and later deposited two checks, one drawn on First National Bank of Blackwell, Tex., signed Austin G. Cowles, and the second drawn on the Merchants State Bank and Trust Company of Laredo, Tex., signed Harry C. Pine. He was allowed to draw against

these deposits before returns were received, and later the checks came back "no account."

BERT KRONER (3317), a recent photograph of whom is reproduced, was received at the Texas State Penitentiary from Reeves County under a sentence of two years for possession of a forged instrument, and was discharged due to expiration of sentence on May 29, 1928. The general manager of the Texas prison system has now been officially informed that this criminal recently negotiated a bogus cashier's check at Galveston, Tex., drawn on the First National Bank of Richmond, Virginia, for \$39, using a check that was probably printed in the shop of the Huntsville prison. Kroner is about 33 years of age, 5 feet 5 inches tall, weighing 160 pounds; has dark brown hair, brown eyes, fair complexion, stocky build. He is Jewish, and was born in New York City.



Bert Kroner

Boy Accompanies Check Passer

F. W. KUBACKI (3318) entered a Pittsburgh, Pa., bank early in July and requested them to take for collection a draft for \$4700, drawn on a Los Angeles bank, where he said he had an account. He also requested that a check for \$200 drawn on a New York bank be handled in the same way. The draft and check were accepted and he was given a receipt for them. He then tried to cash a small check against the account which he claimed to have in a Rochester bank. This accommodation was refused. Both the draft and the check were returned to Pittsburgh marked "No Account."

The next heard from Kubacki was when a Buffalo, N. Y., bank returned the receipts to the Pittsburgh bank, requesting that a check to cover the receipts be mailed to Buffalo. It is presumed he tried the same trick in Buffalo that he did in Pittsburgh, but no information is available as to how successful he was. No description of the operator has been furnished, but it is said that he had a twelve-year-old boy with him when in Pittsburgh.

On page 5 of the February, 1928, issue of this Section, one Frank W. Kubiski (3085), alias Frank Serak, whose method of operation was similar and who was

also accompanied by a twelve or thirteen year old boy was reported as being under arrest in Everett, Washington. Kubiski is 45 years of age, 5 feet 11 inches tall, weighing 180 pounds; wore glasses and spoke broken English. The operator claimed to be a Russian Jew and information obtained from the boy would indicate that his true name was Kubiski. Due to the difficulty in prose-

cuting this man in Washington, as it would have been necessary to call witnesses from a great distance, to insure conviction, it is likely that he obtained his release, and he may be the one reported to be working recently in Pittsburgh and Buffalo. This is being verified as we go to press, and furthermore, the home of the operator arrested on the coast is said to be in Washington, Pa.

Mills Building, which is believed to refer to his place of business in San Francisco. No further details regarding this fellow have been reported, but a specimen of his handwriting is reproduced here as a means of identification, and members coming in contact with him should be on their guard.

Economist Resumes Operations

EARL FREEMAN LATHROP (3319), alias Ernest Gordon, who on December 16, 1924, was sentenced for a period of 5 years to the State Penitentiary at Salem, Oregon, has again been heard from, the scene of his last operation being Phoenix, Ariz.

There he used the name E. L. Davis and forged the name of a bank depositor in whose office he hired desk space.

We are advised that while in the penitentiary he and another convict spent considerable time endeavoring to perfect a bank check which would prevent forgery and which could not be altered. A prominent attorney of Portland interested himself in Lathrop and his co-worker and the last information we had, which was early in 1926, was that this attorney intended to use his influence to obtain a pardon for Lathrop so that he could again resume the responsibilities of citizenship and be entitled to make application for a patent covering his invention. We are unaware whether the early release of Lathrop is due to the intercession of this attorney.



Earl Freeman Lathrop

We are publishing a picture of Lathrop and believe it to be a good one because it has been identified by the victims of his latest venture in crime. Some of his recent worthless checks have been drawn on the Wells Fargo Bank and Union Trust Company of San Francisco, Cal. He is 36 years of age, 5 feet, 7 inches tall, weighs 140 pounds, has a full round face, dark complexion, and is hard of hearing.



H. B. Lee

H. B. LEE (3322), alias R. W. Ellis, alias W. O. Ogden, alias W. R. Durand, alias W. R. Olcott, alias W. A. Grant, alias M. P. Mitchell, who operated extensively prior to December, 1924, has again been heard from. He is using the same old method and bogus checks purporting to have been issued by the same company, whose name he used in previous operations, The New England Loan and Investment Company. His checks are drawn on either a New York or Boston bank. We are reproducing a photograph of Lee, which while old, must be a good likeness because it has been identified by the persons whom he succeeded in defrauding in his most recent operations. His description follows: about 50 years of age, 5 feet 9 or 10 inches, 160 pounds, medium build, sallow complexion, thin face.

Two New Jersey Check Operators

SAMUEL LAWES (3320) and **EDWARD BATES** (3321) who, between them, have used the aliases of L. M. Saunders, E. M. Hammond, James F. Curtin, Edward Backus, H. L. Earhardt, John E. Conroy, John E. McCarthy, and several others, have been operating since last November in Jersey towns adjacent to New York. We know of only one occasion when they left that territory which was in the early part of July. They then visited Far Rockaway, N. Y., and apparently induced a merchant there to pay the expenses of a day's vacation. Their checks are all in amounts of about \$30, drawn on the Fidelity Trust Company, Chambers Street Office, New York, N. Y., and in the lower left-hand corner is rubber

stamped "Federal Abrasive Company, 42 W. Broadway," "National Tool Company, 86 Walker Street" or "U. S. Sandpaper Company, 86 Warren Street." Another rubber stamp reading "Special Account" or "N. Y. Branch Account" also appears on the left-hand end of the checks. Merchants are the usual victims as the operators make a small purchase and the different between this price and the amount of the check is then collected in cash. One of the operators is 45 years old, 5 feet, 8 inches tall, weighing about 150 pounds; stockily built. The other is 23 years of age, 5 feet 6 or 7 inches tall, weighing 130 pounds. Both are dark complexioned which appears to be due to having led an outdoor life.

J. V. LENAHA (3323) is issuing drafts on the Anglo-California Trust Company of San Francisco, Cal. Two of these items for \$35 and \$20 were cashed by a New York bank and later returned from the California bank with the too familiar notation "No such account." On one of these checks Lenahan gave his local address as 41 Maiden Lane while on the other his address appeared as

Carh
J. V. Lenahan

HAROLD R. LOESER (3324), alias R. Lechuer, succeeded in securing a position with a country club in the vicinity of Detroit, Mich. Shortly afterward he opened an account in a Detroit bank and deposited to his credit checks drawn against the account of his employers, bearing forged signatures of two officials of the club. He succeeded in getting away with approximately \$6,000 and up to the present time has not been apprehended. It is believed that he may try to secure a similar position and while we have no photograph or specimen of handwriting at the present time, we are publishing his description which is as follows: 25 or 26 years of age, 5 feet 7 inches, 155 pounds, fair complexion, has a rather large waist line, also nervous twitching of nose, typically German, with pronounced German accent.

THOMAS J. MADDEN (3326), whose sister, Estella E. Madden, has an account with a bank in Centralia, Pa., is reported to be traveling throughout the western and southern states paying his expenses with checks, which he either signs with the name of his sister and his own name, or with his own name alone. He was encouraged in this practice due to the

fact that his sister made good on the first few checks which came through. The reporting bank has not suffered any loss, but members along the route of his travels are warned to be on the lookout for him.

JOHN W. LONG (3325), who was first reported at Youngstown, Ohio, has traveled to Crafton, Pa., where he used that name but did not use the aliases Frank Miller, Robert Hoover and E. John which he also employed at Youngstown. In the early part of June, Long opened an account at a Youngstown bank with \$110 in cash under the name of Frank Miller. A few days later he deposited a check for \$17 which was signed by E. John and drawn on the Citizens Title & Trust Company of Uniontown, Pa. He again allowed an interval of a few days before he returned to the bank and tried to obtain \$250 on a check for \$500 signed Robert Hoover, drawn on the Union Trust Company of Uniontown, Pa. The third check was protested, the exact reason being unknown, while the second was returned as a forgery. At Crafton he deposited a \$2,000 check on the Youngstown bank at the same time stating he intended to transfer \$9,000 from his savings account in the Youngstown bank after the interest period expired. For some unknown reason he did not return to the Crafton bank, and has not been heard of since. He is about 40 years of age, 5 feet 7 inches tall, weighing 135 to 140 pounds; medium build; has sallow complexion; his face is noticeably pockmarked, particularly his nose. He is believed to be either Italian or Hungarian. He has a round face and wore eyeglasses with silver rims.

JOE MARTIN (3327), alias Hargrove, is the payee of bogus cashiers checks drawn on the Exchange State Bank of Shreveport, La., which bear the incorrect transit number 26-4. These checks have been negotiated in and around New Orleans, La., and are all believed to have been passed on merchants, but members receiving any for clearing might be instrumental in saving their depositor the amount of the check and causing the operator's arrest. Martin is 35 years of age, 5 feet 9 or 10 inches tall; has black hair and brown eyes; neatly dressed.

HARRY MILLER (3328) visited a bank at Barbourville, Ky., stating another bank in that city had refused to allow him to withdraw part of a savings account which he claimed to have, and requested the bank that he was then visiting to have some money transferred there for him from the Hood System Industrial Bank of High Point, N. C. He presented a pass-book on that institution which showed a balance of \$1,200 and a draft was drawn at his request. He then asked that a certificate of deposit for \$600 be issued to him. This request was refused, the bank advising Miller that when the draft was paid the

certificate would be issued. Miller then left the bank saying he would return within a few days, leaving instructions to issue the certificate and place the balance in a checking account for him. The Hood System Industrial Bank later advised that Miller had deposited a worthless check with them for the pass-book which he presented at the bank. Miller is described as a tough looking individual, talking with an Irish brogue, rather small and heavy set, with a red face. Although there is no record of Miller having defrauded any banks up to the present time, members, particularly in the South, are requested to watch for a repetition of his activities.

BERT PHILLIPS (3329) is reported from New Mexico where he negotiated several cashier's checks drawn on the Nebraska State Bank of Bridgeport, Neb. These checks were returned protested, and investigation revealed that the Nebraska State Bank was insolvent. Our information does not show whether the checks were issued by the bank or whether they were entirely bogus, nor have we a description of the operator.

The Hartford Police Department hold a warrant for the arrest of one, DONALD M. PILLAR (3330), alias F. Howard Pillar, who was accused of defrauding a West Hartford bank by means of a forged check. Recently the Connecticut bank received two checks signed Hartford Novelty Company by George J. Ormond, payable to the order of the operator, and as these checks came from Houston, Texas, member banks in that vicinity are warned to be on the lookout for him. Pillar is about 28 years of age, slight build; has dark complexion, dark hair, very poor teeth, and was of a very nervous temperament.

JAMES T. RODD, JR. (3336), alias H. C. Thorburn, had an account at the Market Street Title and Trust Company, Philadelphia, Pa., up to February, 1928. Since that date checks from various parts of the country have been received and returned marked "no account," the latest one being from Troy, Ala. The

operator is about 6 feet tall, weighing about 150 pounds, has dark hair and dark complexion. He is clean shaven, but said to be untidy and generally wears colored shirts with collars to match.

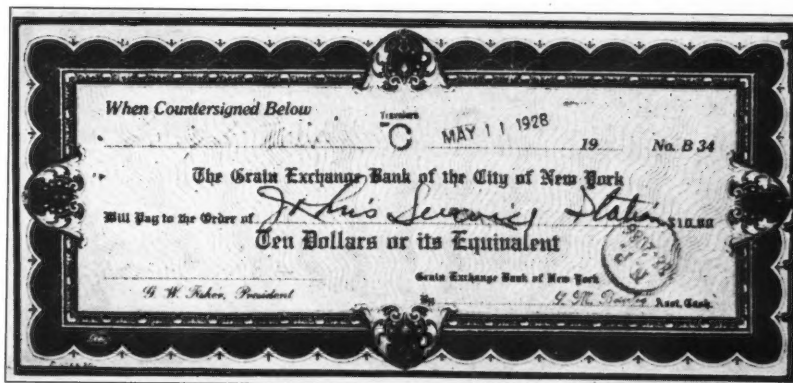
O. A. PURSLEY (3331) is reported from Kittanning, Pa., where he defrauded a bank customer with a bogus check ostensibly issued by the Anderson Bus Corporation and drawn on the Citizens Bank of Anderson, Ind., which was returned marked "no account."

D. ROTH (3332), alias J. J. Smith, has uttered bogus checks in the vicinity of Orange, N. J. As he will no doubt continue his efforts, members are warned to be on the alert for him and others of his kind. He is 35 to 40 years of age, 5 feet 5 inches tall, heavily built, has dark complexion.

D. Roth
J. J. Smith

Grain Exchange Checks Reappear

A BOGUS check passer who apparently picks the month of July each year to victimize hotel keepers, merchants, and automobile service stations, has been again heard from. He is LON S. MIX (2274), alias J. C. Kornemann, alias David M. Stone, alias G. M. Beverly, who is reported from Melvin, Texas, as having again been successful in receiving cash in exchange for a traveler's check drawn on a printed form of the Grain Exchange Bank of the City of New York. These checks are crudely designed and there should be no occasion for banks suffering a loss. The face of the instrument is printed in black with the amount, ten dollars, appearing in



A bogus check passed by Lon S. Mix, who apparently picks the month of July to victimize his people

the usual places and the name "G. M. Beverly, Cashier," is rubber stamped in the lower right corner. We are reproducing copy of the latest check negotiated by this operator. The Grain Exchange Bank in the city of New York is a non-existent institution, and previous warnings were broadcast in the July, 1926 and July, 1927 issues of this Section. Mix is about 46 years of age, 5 feet 7 inches tall, weighing 170 pounds; has light complexion.

W. F. RUETHER (3333) attempted to defraud a bank in Dallas, Texas, by means of a bogus draft drawn on a bank in Decatur, Ala. His description is 35 to 38 years of age, 5 feet 10 inches tall, weighing about 150 pounds, medium build, brown eyes, medium complexion, brown hair, smooth shaven.

MRS. MARY THOMAS (3334), a middle aged motherly appearing Irish woman, opened an account at a Hartford, Conn., bank with a bogus check for \$225, and the same day succeeded in having another bogus check for \$89.50 cashed for her over the counter. She is no doubt successful due to her apparent respectability. This calls to mind the oft repeated warning carried on the front page of several issues of this Section—"strangers are not always crooks, but crooks are usually strangers."

ROBERT H. VAN KEURAN (2024), alias Robert H. Van Kurean, regarding whom a warning appeared in the January, 1926, issue of this Section, is reported again engaged in his old occupation of passing bogus checks, his most recent operation being at Bradford, Vt. This operator varies the spelling of his last name, but to date has always used "Robert H."

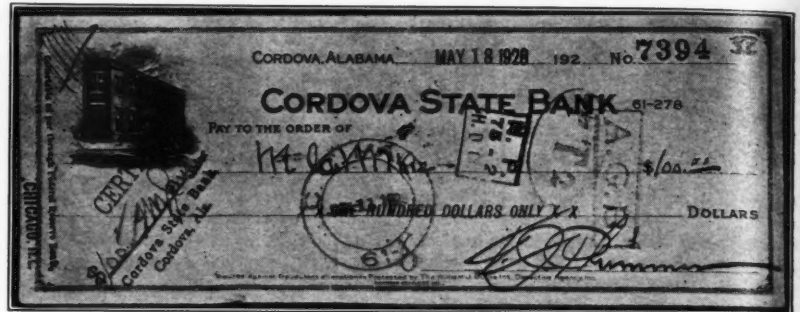
Robert H. Van Kurean
Twenty
Thomas R. Driscoll

EDWARD G. GIBSON (3336), a bogus check operator 55 to 60 years of age, weighing 145 pounds, recently visited St. Paul and was able to convince the president of a bank that they had met four years ago. He then succeeded in getting a small advance against a bogus check which was deposited to open a new account. The operations of this criminal were first reported in Spokane, Wash., early in June, and it is presumed he financed his trip across the country at the expense of banks, as he was last heard of in Ohio.

J. ARTHUR OWEN (3337) recently arrived in this country from England and opened an account at the Ontario County

Trust Company, Canandaigua, N. Y. Within four days he had closed the account out with the exception of 7c. and two days afterward left Canandaigua. It is reported that he disappeared in an automobile which did not belong to him, and since that time worthless checks have come through signed by him from Utica, Poughkeepsie, Troy and New York City. He is 22 years of age, 5 feet 9 inches tall, weighing 150 pounds; has dark hair and eyes; and is in the habit of smoking a pipe and wearing light suits.

M. C. WILKIE (3335), alias J. D. Patterson, alias A. J. Plummer, is passing bogus checks bearing the forged certification of a Cordova, Ala., bank. One of these checks is reproduced and the fake certification is said to bear a good imitation of the bank cashier's true signature. Members are warned to be on the alert for Wilkie, who is 50 years of age, 6 feet tall, weighing 250 pounds; has small face, gray hair, wears glasses and has the appearance of a prosperous business man.



Bogus check passed by M. C. Wilkie, bearing forged certification

Counterfeit \$10 and \$20 Notes

THE following described counterfeit Federal Reserve notes are reported to be in circulation:

\$10 FEDERAL RESERVE NOTE: On the Federal Reserve Bank of New York, N. Y., 1924 series; check letter "A"; face plate No. 674; back plate number indistinct; Frank White, Treasurer of the United States; A. W. Mellon, Secretary of the Treasury; portrait of Jackson. This counterfeit is a straight photographic production printed on one sheet of paper without any attempt at imitating the thread fibre. When moistened, this counterfeit has a sticky "feel" and the impression will erase under pressure after the note has been soaked in water. This note should not deceive the average handler of currency. Specimen at hand bears serial number B920489.

\$20 FEDERAL RESERVE NOTE: On the Federal Reserve Bank of New York, N. Y., 1914 series; check letter "F"; face plate number indistinct, probably 376; back plate number also indistinct; Frank

White, Treasurer of the United States; A. W. Mellon, Secretary of the Treasury; portrait of Cleveland. This counterfeit is printed from photo-mechanical plates on bleached genuine paper. The face of the note has a chalky appearance due to reaction of the paper to the chemical treatment. The back is heavily printed in an unnatural green tone, the fine lines in the border lathe work being barely discernible. The seal and numbering are executed in a dark shade of blue, specimen at hand bearing serial number B54183532A. Presented face up, this note is fairly deceptive, but the back is so poorly executed that it should not delude the average handler of currency.

Arrests and Dispositions

THE detailed record of arrests and dispositions usually presented upon this page is omitted due to lack of space, but the figures are taken into account in the following table:

Statistics of the Protective Department

	Awaiting Trial Sept. 1, 1927	Arrests			Dispositions			Total Awaiting Trial
		Reported Since Sept. 1, 1927	Reported in July	Total	Convicted	Discharged or Acquitted	Fugitives Escaped, Insane or Dead	
Forgers.....	87	168	20	188	114	41	17	103
Burglars.....	12	19	....	19	5	3	....	23
Holdups.....	93	197	14	211	124	38	8	134
Total.....	192	384	34	418	243	82	25	260

